

DOCTORAL THESIS

The vulnerabilities of a small open economy The economic transition of Macedonia and the IMF

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**THE VULNERABILITIES OF A SMALL OPEN
ECONOMY: THE ECONOMIC TRANSITION OF
MACEDONIA AND THE IMF**

By

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A thesis submitted in partial fulfilment of the requirements for the degree of PhD

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1. ABSTRACT

This dissertation explores the impact of the neo-liberal policy programme suggested by the International Monetary Fund's (IMF) on the economic transition of Macedonia. The objective of this thesis is to investigate the extent to which the IMF stance impacted upon and influenced the policies of Macedonia. My work fits into a tradition of literature exploring the body of knowledge on economic growth. Specifically, this study provides an insight into the involvement of international financial institutions (IFI) and their contribution to the vulnerability of the present economic situation in Macedonia.

I tackle this research through a combination of complexity theory and critical realism, which bring a contemporary perspective on economic policy and one that is frequently absent in the mainstream literature. By considering in depth the context that underlies to policy, complexity theory argues that complex systems cannot be analysed in isolation from their context. My critique of the IMF begins from this foundation and I challenge its universalising norms and the traditional economic theory they depend on. This thesis uses a mixed-methods approach with a predominantly qualitative focus. It employs quantitative analysis of secondary data, documentary analysis of the IMF reports issued for the Macedonian economy in the period 1992-2014, and qualitative analysis of primary data collected through semi-structured interviews.

This study makes a theoretical contribution, by using the original perspective of complexity theory in the economic analysis of the economic reform process. Thus, the thesis can be considered as a useful case study that could be used more widely by

those exploring small, open economies that are to some extent still struggling with the process of transition and the way they have been affected by the economic policies.

Finally, considering the more narrowly focused investigation of the Macedonian context, this thesis contributes to the literature by exploring the Macedonian economy and its process of transition using literature in the local language.

2. DEDICATION

I dedicate this thesis to my family and my husband, Emil Bakalinov.

In memoriam of my mother Elizabeta Mano (1953 - 2010)

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6. ABBREVIATIONS

AIC	Akaike Information Criterion
ADF	Augmented Dickey-Fuller test
ARDL	Auto Regressive Distributed Lag
CEE	Central Eastern Europe
DA	Discourse Analysis
EA	East Asia
EU	European Union
ECF	Extended Credit Facility
EMU	European Monetary Union
FDI	Foreign Direct Investments
FL	Financial Liberalisation
FPE	Final Prediction Error
GDP	Gross Domestic Product
GNP	Gross National Product
HQIC	Hannan and Quinn Information Criterion
IMF	International Monetary Fund
IFI	International Financial Institutions
LA	Latin America
LL	Log Likelihood
LR(p)	Likelihood Ratio Test
OLS	Ordinary Least Square
RCF	Rapid Credit Facility
SBA	Standby Agreement

SBIC	Schwarz's Bayesian information criterion
SCF	Standby Credit Facility
SFRY	Socialist Federative Republic of Yugoslavia
SEA	South East Asia
SOE	Small Open Economy (SOE)
SPSS	Software Package for Statistical Analysis
STATA	Statistical Software Analysis Package
UECM	Unrestricted Error Correction Model
US	United States of America
VARSOC	Vector Auto Regressive Specification Order Criterion
WWII	Second World War

CHAPTER 1

PAVING THE WAY FOR MY RESEARCH PROJECT

1.1 INTRODUCTION

The neo-liberal project¹ which appeared nearly invincible as we moved into the 21st century has faced an increasing number of challenges to its dominance during the past decade. As the global economy stumbles from crisis to crisis, with the repercussions of the 2007/8 financial crisis still reverberating through the world's national economies, the economic thought leaders in the European Union (EU) and the United States (US) propose more of the same policies to solve those problems they have arguably played a role in creating. Thus, the International Monetary Fund (IMF) persists in suggesting 'reform packages' as a condition of the repayment of loans that were necessary for response to the crisis. The EU crisis has brought to the fore pressures and inconsistencies that have long existed in the relationships between economies in the post-globalisation era.

The aim of my thesis is to investigate one small corner of this global picture by exploring the involvement of the IMF in Macedonia and the impact of the neo-liberal policies it proposes on the long and troubled economic transition of that country, which is also my country. Through this investigation, I plan to draw general lessons about the impact of the restructuring and adjustment policies on small economies and to evaluate critically the dominance of a regime of free capital movement, as proposed

¹ It is a laissez-faire capitalist set of ideas which promotes market economy (Mudge, 2008).

by the international financial institutions (IFI) including the IMF and as supported by the mainstream economic theory²..

While much of the mainstream literature suggests opportunities for countries to benefit from greater openness and competition, over the past decade a critical strand has emerged. This critical sentiment suggests that a new regime would preferentially serve the interests of a small number of large and mainly Western countries, particularly those that control reserve currencies (Feldstein, 1998). Critical studies of the IMF programmes indicate increased unemployment and poverty rates, decreased growth and expanded income inequality (Barro and Lee, 2003; Vreeland, 2003). Thus, the argument in the critical literature brings into the ambit of my research an imperialist approach to the analysis and suggests different reasons for the imposition of financial reforms and policies by developed Western economies on small economies. There is some limited empirical research on the impact of this policy regime on small open economies, and it is here that I intend to make my first contribution, especially since Macedonia has not as yet, been the subject of such research.

Macedonia is an interesting case study for this area of investigation for two main reasons. First, Macedonia has undergone a transformative process of economic regime change from a planned to a market economy coupled with serious

² A term used to describe schools of economic thought considered orthodox, it is used to describe economic theories often used considered part of the neoclassical economics tradition. The orthodox economics theories follow rational choice theory and regard the economy as an aggregate of the sum of agents trying to maximise their utility through rational behaviour (Colander, Holt and Rosser, 2004).

liberalisation reforms imposed on the country. These restructuring reforms and macroeconomic policies began with the country's independence in 1992 and were intended to stabilise the already vulnerable economy and rehabilitate the financial and private sector. However, there is little empirical evidence indicating whether or not these reforms were efficient and the impact they had on the productive economy of Macedonia. Secondly, the data available for Macedonia is considered relatively sufficient by the standards of other transitional economies. The use of the annual data from 1992-2014 is enough to allow meaningful time-series investigation. This analysis addresses the concerns raised with regards to the limited time-series- based individual case study.

The empirical part of my research critically evaluates quantitative models used in previous research to explain small, open economies like Macedonia by providing an analysis of the main macroeconomic determinants and their explanatory power when growth is the dependent variable. I argue that investigating the impact of liberalisation policies is much more complex and cannot be explained by a linear regression model used in isolation. Moreover, the in-depth documentary analysis of official reports and documents seeks to investigate how Macedonian officials view the benefits of economic reform policies and their impact on the Macedonian economy, which implicitly tests the accepted IMF position. Finally, the empirical research also involves conducting in-depth, semi-structured interviews with a number of professionals, economists and academics in Macedonia. It provides an understanding of the other side of the coin, i.e. the local (the Macedonian) perspective of the IMF's involvement in the transformation of the Macedonian economy. The interview

analysis in tandem with the official statistical data, the official reports and the application of complexity theory, assist in better understanding the complex economic context of Macedonia and in extrapolating beyond this to argue for a more case-specific approach in the implementation of liberalisation reforms.

My story begins several decades ago when following the breakdown of the post-war Bretton Woods consensus during the 1970s, a growing body of evidence suggested increasing instability in global financial markets (Feldstein, 1998; Joyce, 2005). At the beginning of the 1980s, instead of focusing on and dealing with countries in crisis, the IMF shifted its focus to developing countries and the implementation of structural adjustment programmes. This process intensified, especially after the fall of the Berlin Wall in 1989, when a large number of newly independent countries sought the assistance of the IMF to support their transition from a system of communism into market economies (Stiglitz, 2002). The ‘Washington Consensus’ evolved as a set of changes and reforms that had to be made to achieve macroeconomic stability. The ‘Washington Consensus’ has been critiqued as a hegemonic concept intended to be universally implemented. As a propagandist view imposed on developing countries, this hegemonic framework provided guidelines according to which developing countries should be structurally readjusted following the norms of the IMF and World Bank (Williamson, 1993).

Even though the significant IMF’s influence and assistance for stabilisation and development, some criticisms are discussed in Chapter 2 that academics and researchers have noted in the way economic policies and programmes are designed and implemented in various economies (Grabel, 2011). The conditionality associated

with these policies, such as the enforcement of reductionist measures (cutting public spending, reducing debt and other austerity measures) and the privatisation of public institutions has provoked strong reactions in the country receiving the loan (Goldstein, Geithner, Keating and Park, 2003). Moreover, the main aim of the policies and the lack of in-depth analysis of the level of development of the economy subject to them have had devastating outcomes in the past (such as the East Asian currency crisis [1997/8], Latin American – Argentine crisis [2001] and Ex-Soviet Union crisis [1998]) (Joyce, 2005).

The concerns surrounding these policies have developed into a generalised critique that they have led to inefficient reforms, created counterproductive problems, and in many cases led small economies into crisis (Killick, 1982). By drawing on examples from the literature regarding countries that implemented the IMF policies while transforming into open market economies (Stiglitz, 2010), I argue that IFIs construct inflexible policies as universal laws without considering the complexity of the economic systems of the individual economies in which they are introduced. Moreover, through the liberalisation of markets according to such universal norms, I argue that economies become more vulnerable to outside instability and crisis.

During the period immediately before the occurrence of the global financial crisis in 2008 there was no need for the IMF's assistance in Europe, and indeed, the organisation appeared somewhat aimless and in need of a role. But the occurrence of the Eurozone crisis from 2010 onwards has seen the institution regain its significance as a 'reformist' body (Chorev and Babb, 2009). This is due to the IMF's monopolistic position in the area of reforming transitional markets, as well as the desperate need of

struggling peripheral EU countries for financial help. Finally, the EU's collaboration with the IMF to provide rescue plans with unbounded conditionality also greatly enhanced its credibility and power (Kapur and Webb, 2006). In this research, I focus on what has not been mentioned and investigated by academics and media commentators. I argue that the liberalisation process of transitional economies is more complex and dynamic and that it involves not only economic but also a political and socio-cultural development that are crucial underpinnings of economic growth and stability.

Foreign relationships are fundamental to the success of small economies like Macedonia, which is a landlocked country without extensive natural resources. The support and development of Macedonia's capabilities are therefore dependent on new technology, know-how, management skills and expertise. These skills are obtained through the flow of FDI and trade, which make the country 'more vulnerable to negative spillover through reduced FDI or trade flows' from its main business partners (Dimireva, 2010). However, the extent of Greek debt crisis generated a number of complexities that have affected Macedonia as well as having had wider implications for the EU and international financial markets (Economou and Thomas, 2011; Featherstone, 2011). Therefore, I explore the neo-liberal policy programme implemented by the IMF and its effect on the Macedonian economy. Furthermore, I test the effectiveness of the market liberalisation policies by considering the effect of the Greek crisis in Macedonia. My research draws out the nuances of the particular case of Macedonia to suggest aspects and considerations that could apply to other small open economies.

1.2 THE AIMS AND OBJECTIVES OF THE RESEARCH

The objective of my research is to provide a critique of the IMF stance concerning foreign investment and the benefits for small, open economies of allowing the free movement of capital. I explore the specific extent to which this stance impacted upon and influenced the policies of Macedonia. This involves providing a contextualised, critical account of the IMF's policy prescriptions during the early 2000s and comparing these with policy documents, political discourse and policies enacted in Macedonia. I analyse this relationship from a critical rationalist perspective through the lens of complexity theory in order to argue that the effects of the implemented policies are not a simple example of 'cause and effect', but they are far more complex (Stiglitz, 2002: 58). Through the idea of complexity theory, I argue that non-linear interactions amongst heterogeneous agents as well as feedback loops defined as a 'circular arrangement of causally connected elements', bring economies into a state of disequilibrium (Arthur, 2013:128). My intention is to explore how, by causing a small temporary effect on economic growth, certain macroeconomic determinants contribute to the country's vulnerability and economic stagnation. More specifically, the feedback loops support my argument and indicate that even a small modification (via a positive feedback loop) can bring about significant change (and even lead to negative feedback loops) that affect the first element of the cycle (Walby, 2007). Contrary to complexity theory, I argue that mainstream economic analysis can explain one aspect of an economic system, the direct relationships between macroeconomic determinants. This analysis fails to consider the indirect relationships

that exist in a complex economic system, especially since certain factors exist that cannot be monetised, therefore, are excluded. Since interrelations in an economic system are as complex as some theorists propose, I argue that the existing mainstream economic models are inadequate and misleading. Especially when these models are used in isolation, I highlight that they fail to understand the complex cause and effect relations in an economic system. By adopting this critical stance, my aim is to go beneath the surface and understand the complexity of an economic system. In order to do so, I analyse the standardised reform platform that was implemented in Macedonia and its effects on the Macedonian economy (Mingers, 2004; Pawson and Tilley, 1997).

My argument is that the liberalisation, privatisation and macroeconomic policies being propagated by the IMF have had a negative impact on Macedonia. The central question this thesis aims to address is: what has been the impact of the IMF policy prescription on Macedonia, following the break-up of the former Yugoslavia, and the country's transition to a market economy? The main sub-questions I address are:

- 1) To what extent has the IMF liberalisation agenda been influential in determining Macedonia's path to economic development?
- 2) To what extent has the IMF considered the specificities of the context and the region in its policy design?
- 3) To what extent have the complex characteristics of the context been considered by the Macedonian experts as important for the economic development of Macedonia?

1.3 THE RESEARCH CONTEXT

Although critiques of the IFI began to emerge following the 2008 financial crisis, few have focused specifically on the failure of the liberalisation model and virtually none of them has thoroughly analysed this specifically within the context of the vulnerable and interconnected economies of the Balkans. My work fits into a tradition of literature that explores the body of knowledge on economic development and economic vulnerability globally (for example, the East Asian currency crisis [1997/8], Latin American – Argentine crisis [2001], Ex-Soviet Union crisis [1998]). This thesis specifically provides an insight into the IFIs involvement and contribution to the destabilisation and vulnerability of the present economic situation in Macedonia. This makes it a useful case-study of how small, open economies, which are to some extent still struggling with the process of transition, are affected by crisis and contagion affecting their economic neighbours.

My thesis also makes a theoretical contribution, by applying complexity theory in order to bring a fresh perspective to the economic study of the policy programme of small economies. In this study, I consider Macedonia as a complex economic system, in which non-linear interactions of agents cause random and unpredictable effects on the macroeconomic stability and growth of the country. Complexity theory enables us to explore the number of elements which co-exist, behave and correlate in a complex economic system. Thus, complexity theory seeks to reflect the turbulent environment, the non-linear changes of elements, as well as the occurrence of emergent properties, discussed in more detail in Chapter 4.

The combination of both qualitative and quantitative methods is a very effective approach that enables researchers to portray the complexities of an economic

system such as Macedonia. This is the methodological contribution of this thesis since this approach has rarely been used in other critical research that evaluates neo-liberal policies in transitional economies. This methodology assists in answering my research questions and especially in explaining the views of social actors in a turbulent and complex environment with various political, social and cultural influences.

Finally, I offer a contribution in terms of the exploration of small open transitional economies in the South-East region of Europe and their response to the imposed neo-liberal policies. There is limited empirical research on the impact of such policies on small open economies in the Balkans, and it is here that I intend to make my contribution, especially since Macedonia has not, as yet, been the subject of such research. I believe that research on Macedonia has been unduly limited and my thesis makes a valuable contribution by shedding light on the local literature and research published in Macedonian, Serbian, Croatian and Greek language.

1.4 MY APPROACH TO THE RESEARCH FIELD

I begin from the critical position that the mainstream economic theory has failed to predict or explain the turbulence of the recent economic and financial crises. Specifically, it fails to account for the interconnectedness of countries and markets as a result of the process of globalisation. Conversely, I highlight the need for using a more complex economic theory that bypasses the neo-classical economic approach and its focus on equilibrium and simple bivariate interactions. Rather, I investigate how complex economic theory constructs the economic environment as unstable and dependent on a network of interrelated factors and agents. Complexity theory satisfies

this need as it perceives an economic system as a system of heterogeneous agents which correlate and create non-linear events and influence the economic state in general (Arthur, 2013; Frieden, 2009).

By using Bhaskar's scientific realism as a philosophical ontology and combining it with the scientific ontology which establishes the idea of complexity, Reed and Harvey (1992: 354) developed the 'ontological component' of complexity theory. This thesis uses Bhaskar's (1979: 123) understanding of reality as dynamic, complex and stratified - 'one strata is emergent from another'. Thus, I perceive the changes that appear at one level as a result of changes in lower level (Archer, Bhaskar, Collier, Lawson and Norrie, 1998). Consequently, this thesis employs Harvey and Reed (1996) perception of the world as layers of reality, which comprise 'a mechanism of entities' and this mechanism generates social events but in a more complex and non-linear stream of cause and effect. Thus, I use the critical realist view supported by Reed and Harvey (1992: 355) and I argue that 'the purpose of scientific endeavour' in this thesis is to analyse and uncover each and every layer of reality in order to analyse the factors behind events (Byrne, 1998). Therefore, the critical realism in this research provides an appropriate 'philosophical ontology' for the study of complexity theory as well as a way of reconstructing a specific event in order to determine the path that led to the present reality (Harvey and Reed, 1992: 355).

By using critical realism to interrogate present economic reality, complexity theory assists in explaining the complex economic environment of a small, open economy like Macedonia. My intention here is to argue that Macedonia is a system with a set of the constituent elements and agents. The interaction and correlation

between these elements and agents change the environment and the attitude of the actors (Rosenau, 1996). This, in turn, constructs the Macedonian economy as 'an ongoing computation—a vast, distributed, massively parallel, stochastic one' and an evolutionary process dependent on events (Rosenau, 1996: 1). Through the mixed-methods approach implemented in this study, I investigate how changes and events occur through the interactions between agents and elements. Moreover, I investigate the impact of these interactions as well as the kinds of effects they generate in the Macedonian economy by affecting one or two elements, which then impact on other elements of the economic system (Brock, Lakonishok and LeBaron, 1992; LeBaron, Arthur and Palmer, 1999). Thus, I argue that the state of disequilibrium in the Macedonian economy, supported by complexity theorists, produces a need to understand the occurrence and causality of changes and the implications of these changes in a complex system.

My determination to respond to the existing complexity of the Macedonian economy has required me to adopt an approach to a method that is unconventional in the economic literature. In order to explore the limitation of the conventional approach to the economic analysis I began by conducting a regression analysis. The quantitative method, used in Chapter 6, has been implemented to explain the causality and effect of the economic reforms (represented by specific macroeconomic indicators) on the growth of small, open economies like Macedonia (represented by the GDP). According to Solow (2005), a group of economies might share similar outlines but each has its individual characteristics. I argue that this analysis is too simplistic in providing policy-makers evidence of the client-country's individuality.

Therefore, this critical view of traditional economic models identifies the need for more complex methods which consider the unmeasurable factors that influence the economy. This is my first critique: the limited explanatory power of linear regression models and the need to consider other methods to understand this complex reality of an economic system.

Secondly, I conducted a documentary analysis of specific reports and statements issued by the IMF for the Macedonian economy, analyse the discourse used in these reports and explore how the IMF has portrayed the economic environment in Macedonia. I investigated how the IMF policies were integrated, operationalised and therefore, impacted upon the Macedonian economy. This helps to identify how the Macedonian economy reacted to the market liberalisation reforms. By drawing on examples from the literature regarding other countries that implemented the IMF policies when transitioning to open market economies, I argue that IFI's see economies as simple systems in which they implement policies as universal laws. By doing so, they do not consider the variety of factors that impact upon the outcome of the policies they espouse. This is my second critique: the critique of neo-liberal ideology and the IMF as applied to the Macedonian economy which disregards the specificity of the context.

Finally, I interviewed a variety of actors in the Macedonian economy. The documentary analysis above assists in preparing the interview topics. I investigated the practitioners' perception of the economic growth and stability that result from liberalisation policies suggested by the IMF. I conducted 16 semi-structured interviews at the participant's' site of work which assists in providing a substantial and

in-depth analysis of the results. I initially established contacts with some of the participants, such as Greek investors in the banking sector (Alpha Bank, Stopanska Banka). Furthermore, I interviewed economists in public organisations such as, Greek diplomatic office, Greek commercial and trade office, Association of Greek Investors, National Bank of Macedonia, the IMF and World Bank representatives and other academics and professionals operating in Macedonia. The purpose of the qualitative data collection is to determine how actors perceive the impact of the IMF policies and the occurrence of the Greek crisis on the economic growth of the country. Through this qualitative analysis, I identify the complexity of the Macedonian economic system which has become even more apparent with the ineffective implementation of the IMF liberalisation agenda.

The background theory enables me to conceptualise the influence of an ideology and a theory arising from developed economies on small, open developing economies and the idea of universal laws versus particular policies and reforms. As this research is interdisciplinary, the intention is to combine a theoretical approach and a well-developed theory which will assist in better investigating and understanding the functioning of economic systems.

By adopting a critical realist position I have been able to bring fresh perception to my research. My aim has been not only to provide a simple interpretation or description but to undertake a holistic analysis. Thus, by employing a regression analysis of variables in my research I intend to understand the relationship between the variables and economic growth. This analysis also supports the qualitative study which gets beneath the surface and explores the mechanisms that

operate and create the complexity of the economic system (Mingers, 2004; Pawson, 1997).

The interpretative documentary analysis on reports and policy documents issued by the IMF on the Macedonian economy enables me to critique and analyse the discourse that has been constructed. This analysis also assists in understanding the way the Fund structures reforms and policies, justifies their implementation and perceives their outcomes and results (Hammersley and Atkinson, 2007).

Finally, the qualitative study assists in tying up the previous two empirical chapters and exploring the response of social actors to the influence of the IMF on the Macedonian economy as well as how they perceive the influence of the Greek crisis as an external event on Macedonia (Howarth, Norval and Stavrakis, 2000). The most appropriate method through which I explore the social reality is by uncovering the significance of subjective interpretation through semi-structured interviews, which provide greater depth to the qualitative analysis (Howarth, 2008). I have chosen this qualitative method because of the suitability of semi-structured interviews for exploring perceptions regarding complex and sensitive issues. Because the opportunity to probe for more information and clarification of answers and the diversity of the sample group would have been limited, structured interviews were not appropriate (Fontana and Frey, 1994).

1.5 OUTLINE OF THE THESIS

The following chapter provides the reader with an overview of the current state of the art concerning the analysis of transition economies. Initially, I provide an

explanation of what I mean by economic reforms and how I relate them to economic growth in transition economies, after presenting the two most important traditional economic growth theories (neo-classical and endogenous economic growth theory). I then proceed to critique the IMF and argue that the ‘Washington consensus’ is presented in the literature as an ideology of how countries should be structurally readjusted according to the norms of the IMF. In carrying out this task, I highlight the factors and policies implemented in three small and open economies (Uruguay, Latvia and Thailand) which are in the neighbourhood of a significant crisis in the last three decades: the Latin American crisis, the Soviet Union crisis and the East Asian crisis. I argue that IFIs construct stringent policies as universal laws without considering the specificities of the economic systems of the individual countries in which they are introduced and that through the liberalisation of markets, they become more vulnerable to outside instability and crisis. The unquestioned hegemony of the IMF has enabled me to better ground the critical evaluation of the existing literature by highlighting the gaps that my research is able to fill.

Chapter 3 introduces the context of the thesis: Macedonia as a small open transitional economy. Contextually, this involves understanding the economic, social and political developments in Macedonia when it was part of the larger Socialist Federal Republic of Yugoslavia (SFRY), as well as during the transition period as an independent country. This chapter also introduces the Macedonian-Greek relationship from a political, cultural and economic perspective. Thus, it assists in elucidating aspects of the research question but provides insight by contextualising and

developing an understanding of the Macedonian context, as the primary site of this research.

Chapter 4 presents the theoretical framework employed in the thesis and introduces the relevant, articulated methodological elements. This is where a significant contribution of my thesis lies, as I have chosen to apply complexity theory. I argue that complexity theory introduces a fresh perspective on the economic study of the development of small economies, with specific consideration of Macedonia as a complex economic system in which non-linear interactions of agents cause random and unpredictable effects on the macroeconomic stability and growth of the country. Therefore, through this critical approach, my aim is to dig deeper in understanding the complexity of an economic system and analyse the non-linear effects caused by the IMF's policies on Macedonia.

Chapter 5 highlights the critical realist approach used in this thesis and provides the methodological justification for adopting this approach. In this chapter, I explore the mechanisms that operate beyond simple observations (beyond the liberalised market there are institutions and actors with various economic, cultural and political backgrounds). The 'philosophical ontology' of critical realism coupled with the 'ontological component' of complexity theory provide a way of reconstructing a specific event in order to determine the path that led to the present reality (Reed and Harvey, 1992: 355).

Since critical realism regards the real world as an open system in which effects are generated by the correlation of social structures, mechanisms and actors, I argue that the combination of both qualitative and quantitative methods is an effective approach

that enables researchers to portray the complexities in an economic system such as Macedonia. This methodology assists in better answering my research questions and especially in explaining the views of social actors in a turbulent and complex environment with various political, social and cultural influences.

The predominant focus of Chapter 6 is a critique of the quantitative modelling used by orthodox economists and the explanation of why this analysis cannot be used in isolation but must be supported by qualitative analysis. I test the secondary quantitative data using STATA through an autoregressive distributed lag (ARDL) model to detect correlation amongst macroeconomic variables. I find that this analysis, coupled with complexity theory, demonstrates that quantitative models fail to uncover a deep explanation for the relationship between variables. Thus, a mixed-methods approach is necessary to demonstrate a clearer analysis of what relationships emerge between macroeconomic variables in an economic system, which is not always in equilibrium and is constantly evolving.

In Chapter 7 I conduct a discourse analysis of policy documents relating to the Macedonian economic transition and relating to the policy implementation of this model that occurred in Macedonia. My intention through this analysis is to present the complexity of the Macedonian economy by highlighting the reasons for the unsuccessful implementation of the IMF policies. This chapter provides an insight into the first research question. By critically analysing the IMF's rhetoric in the literature and the dominant themes occurring throughout the IMF reports, I identify the hegemonic influence of the IMF's liberalisation agenda in Macedonia. Equally, this process of documentary analysis assisted in identifying the discourse used by

financial institutions and how has this discourse been used as a tool to impose the prescribed ‘best practices’.

Chapter 8 presents the qualitative analysis of the primary data collected through semi-structured interviews. The qualitative analysis investigates the themes that arose through the documentary analysis and examines the indirect relationships in the cause and effect analysis of the Greek debt crisis and the complexity that exists in evolutionary economic systems. It focuses on interpreting data critically and the application of complexity theory. The emergent themes in the literature and documentary analysis assist in understanding the opinions of academics and practitioners operating in this economic system.

Finally, the three empirical chapters join together in a discussion around the findings of this thesis presented in Chapter 9. The answers to the research sub-questions of this thesis, the summary of the whole thesis, the policy recommendations, contribution to knowledge, limitations and suggestions for future work are discussed here. This is the final chapter with which this thesis concludes.

CHAPTER 2

ECONOMIC POLICY OF INTERNATIONAL FINANCIAL INSTITUTIONS

2.1 INTRODUCTION

At the end of the Second World War, the victorious nations agreed on a new settlement designed to ensure a stable framework for a political economy on a global basis. This settlement was instantiated in two international organisations, the International Bank for Restructure and Development (IBRD) and the International Monetary Fund (IMF), and also by the General Agreement on Tariffs and Trade (GATT), which initially played a role in governing the international economy. Over the succeeding decades, these three elements were relatively successful in ensuring stability in the post-war economies. However, a critique of the institutions has emerged suggesting that, even though these institutions accepted multinational participation, they were mostly dominated by US hegemony (Gowan, 1995; Shaw, 1973).

The most important goal of the three measures introduced was controlling access to various types of resources (DiMaggio and Powell, 1983; Useem, 1993). Initially mediated and agreed by American and British regulators, the IBRD, IMF and GATT evolved to provide assistance to countries recovering from the war and norms for global economic stability (Chorev and Babb, 2009). The role of the IBRD, which was later renamed the World Bank (WB), was to provide loans for post-war development and reconstruction. The logic of the IMF as an international financial institution (IFI) was to transfer significant amounts of money through loans to underpin crisis management by conditioning governments through an economic reform programme (Chorev and Babb, 2009). The third measure, the GATT, evolved into the World Trade Organisation (WTO), which assisted in the minimisation of trade barriers relating to manufactured goods and services (Chorev and Babb, 2009).

Calomiris (1998) argues that not all the IMF policies failed; some favourable policies were in the tax and expenditure areas, foreign trade and monetary policies. The success stories celebrated by the IMF were in the early 1980s when Norway, Finland and Sweden undertook a major deregulation of their financial systems as well as liberalisation of their markets (Jonung, 2008). The macroeconomic result according to Jonung (2008) was a 'strong boom' at the end of the 1980s, beginning in the Norwegian economy and later in the Finnish and Swedish economies. However, the critical literature of orthodox economics argues that the IMF's approach does not provide efficient policy programmes and does not always lead to economic development and growth (Feldstein, 2008; Peet, 2009; Stiglitz, 2002).

The countries that belonged to what soon became known as the transition economies or the 'developing world' (East Asian, ex-Soviet Union and Latin American countries) applied the economic policies with the ultimate aim of achieving sustainable economic growth. However, the largest part of these economies suffered from chronic macroeconomic problems mostly due to their system of centrally planning (Fidrmuc, Fidrmuc and Horvat, 2002). Most of the state-owned enterprises, initially created in the middle of the 20th century to serve social and political goals and undertake the role of the non-existent private sector, proved to be extremely unproductive and further constrained the public budget of these countries (Goldstein *et al.*, 2003). By the end of the 20th century, the need for economic reforms and structural adjustment programmes became generally accepted and the IMF developed an economic programme for lending and assisting transitional economies in their development plans. The IMF prescription was less efficient in the case of the

countries that did not have a seat at the table where decisions were made (Stiglitz, 1992). Far from extricating themselves from poverty, these nations tended to fall deeper into debt and to suffer prolonged and repeated financial crises.

The aim of this chapter is to evaluate critically the IMF activities towards achieving liberalisation of markets and economic growth. The policies and reforms propagated by mainstream economic growth literature and the IMF have come across some critiques of the academic literature. By doing so, I intend to highlight the key aspects of the economic reform process, touch upon economic growth theories (neo-classical and endogenous) and underline the role of the IMF in transitional economies during the undertaking of their economic reform programmes. In light of this, I intend to explore the outcome of these policy programmes in the transitional economies. The goal of this chapter is to determine to what extent the IMF and the structural adjustment programmes were effective in transitional economies. The arguments in this chapter provide the literature background that further informs the analysis and discussion in Chapter 6.

This chapter is organised as follows: the second section highlights the importance of the economic reform programme. This leads to the need to discuss the main duties of the IMF, which is presented in section 2.3. Sections 2.4 and 2.5 discuss in more detail the concept of economic growth, by relating it to the main economic theories of growth as well as considering the economic growth determinants and the economic model used in the literature. Additionally, section 2.6 presents some examples of economic reform programmes implemented by the IMF in transitional economies in different regions of the world. Finally, section 2.7 concludes the main

arguments in this chapter as well as prepares the reader for the following chapter which introduces the Macedonian by discussing the political, economic and socio-cultural developments before and after the country's independence.

2.2 THE ECONOMIC REFORM PROGRAMME

Four decades ago the economies of the world were divided into two main economic blocs: one of which followed the capitalist perspective, with emphasis on market-based economy and the other a group of countries whose guiding principle was a centrally-planned economy. However, since the mid-1980s capitalism proved to be a more successful method of managing an economy, generating a significant reform process in the communist and socialist economies (such as the Soviet Union, the Visegrad countries and Yugoslavia) (Fidrmuc *et al.*, 2002). After 1989, a large number of new countries emerged which needed to undertake a set of reforms in order to strengthen their market. This section moves towards presenting the debate in the literature of economic reform programmes. In addition, this literature review defines the economic reform concept as well as sheds light on the notion 'Washington Consensus', a set of strategic policies which would potentially lead the economies through the transition towards a market economy.

2.2.1 DEFINING THE ECONOMIC REFORMS

The economic literature uses many terms which indicate the same meaning as 'economic reforms'. According to Gill (2003), the word 'revolution' was formed as a combination of the two words 'reform' and 'evolution', highlighting the process of

post-communist transition. Other terms that have the same meaning as ‘economic reform programme’ are the terms ‘economy and transition’ or ‘transitional economy’, all of which have been used in the literature interchangeably (Karsten, 2005; Lavigne, 1995). Some authors characterise this process by referring to it as ‘transformation’ (Daniel and Yang, 2006; Francis and Kompas, 2001), some even define it as ‘economic adjustment, stabilisation and regime change’ (Sarma and Gupta, 2002). However, most of the academic literature refer to this reform process as ‘economic reform programme’ or ‘transition’ (Hughes and Lovei, 1999). Nevertheless, authors when referring to the Eastern European countries utilise the term ‘transition economies’, which indicates the reform programme of transitioning from a socialist planned economy to a market economy (Bouev, 2004; Stein, 2005). In this thesis, I use both terms interchangeably when relating to this same economic transition.

Centrally-planned economies during the 1980s realised that the inward-looking programmes they had implemented were not only leading to the stagnation of their economies and decreasing the living standard of their people but in some cases their economies were actually retrogressing (Schipke and Taylor, 1994). Many transition economies in this period were faced with high inflation rates and debt crises. Thus, the new market-oriented policy programme became more and more widespread. Many transition economies (in the regions of South East Asia (SEA), Latin America (LA) and Central and Eastern Europe (CEE)) adopted this model and implemented broad economic reform programmes to transform their societies and economies. Some of the issues that economies in the CEE region demonstrated, according to Bird (2001:34), revolved around ‘soft budget limitation, repressed

inflation, hidden unemployment, high level of unproductivity and shortages in the supply side of economic growth'. These issues led these countries to retreat to new models of reform.

In order to address these shortcomings, the economic reforms covered price liberalisation, monetary policy, establishing exchange rates, foreign trade liberalisation and creating market laws and institutions (Bitzenis and Marangos, 2007). These reforms also focused on privatisation, the development of a stable economic environment for foreign capital inflow, and creating a competitive advantage which would consolidate the market in the globalised world (Bitzenis, 2007). The problem with these policies was that they were 'the ends instead of being the means' for achieving sustainability and growth (Stiglitz, 2002: 54). Therefore, a lot of essential reforms were not implemented before these milestones were rapidly achieved. Having introduced the reform process, it is of great importance to mention the reform model enforced in these transition economies which was named the 'Washington Consensus'.

2.2.2 THE WASHINGTON CONSENSUS

The strategy of the rapid transformation of a centrally-planned economy into a market economy according to the Western model was implemented in a number of economies throughout the CEE, LA and SEA (Sachs, 1994). According to several academics (Hare and Hughes, 1991; Landesmann, 1991) the initial effectiveness of these structural adjustment programmes was assessed through the performance of a few main economic factors:

- Privatisation (along with new measures of fiscal, monetary and income policy),

- Price Liberalisation,
- Exchange and trade liberalisation.

However, Lavigne (1999) argued that more specific variables should be considered in order to assess the performativity of these reform programmes. Towards the end of the 1980s, the idea of the 'Washington Consensus' emerged to describe a combination of policies, which were perceived as a 'radical approach to economic development and stabilisation' (Stiglitz, 2002: 17). The 'Washington Consensus' suggested a number of changes in national policies which should achieve sustainable economic development (Gore, 2000). The ten reforms (presented in Table 2.1 below) characterise the Washington Consensus and these generalisations were dispersed as norms through countries which engaged in the development process (Williamson, 2004).

Through the eyes of commentators such as Williamson (1993), the 'Washington Consensus' is seen more like a paradigm through which a 'common core of wisdom embraced by all serious economists' is imposed on countries which then have to apply it in practice. It was perceived as a universal idea and almost an ideology of how countries should be structurally readjusted in line with the norms of the IMF (Gore, 2000: 789; Williamson, 2000). According to Nuti (1999), the 'Washington Consensus' permitted a simple explanation of transforming the socialist economies into an efficient market economy: transition = liberalisation + privatisation + open international trade.

Fiscal Discipline	Priorities in public expenditure	Trade liberalisation	Foreign Direct Investments	Financial liberalisation
Privatisation	Deregulation	Tax Reforms	Property Rights	Exchange Rates

Table 2.1: Norms of structural readjustment

Because the policies implemented under the ‘Washington Consensus’ did not have the expected outcome and crises recurred in countries subject to its prescriptions, this led to the development of the so-called ‘post-Washington Consensus’³. It emerged especially from the work of Stiglitz (2008) who by referring to the generalisations in Table 2.1 above argues that ‘there is no consensus except that the “Washington Consensus” did not provide the answer’ with regards to economic development in developing countries. This was explained by the lack of understanding that ‘asymmetric information among economic agents, leads to market failure’ and that markets in combination with government intervention should be the way to achieve growth (Bitzenis and Marangos, 2007; Lapavitsas, 2004: 21). However, understanding the ideas behind the ‘Washington Consensus’ brings to the surface the question about the role of one of the institutions which propagated these policies, the role of the IMF.

2.3 THE IMF DUTIES AND CRITIQUE

³ This moves away from the neo-liberal approach and places emphasis on the democratic and egalitarian development of countries. However, critics argue that the original neo-liberal agenda still underpins the ‘post-Washington Consensus’.

At the beginning of the 1980s instead of focusing on countries in crisis, the IMF along with the WB shifted its attention to improving the economic situation of developing countries by implementing the so-called structural adjustment programmes. With the collapse of the communist regime and the fall of the Berlin wall in 1989, the disintegration of the Soviet Union in 1991 and later on of Yugoslavia, the importance of the economic reform programmes supported by international organisation (such as the IMF and WB) was recognised by the rest of the world (Williamson, 1993). This section focuses on uncovering the main duties and critiques towards the functioning of the IMF.

The Bretton Woods agreement, signed by 44 countries in 1944, founded the IMF to manage the exchange rates for international trade but the collapse of the old exchange system in the US (which went off the gold standard in 1973) meant the IMF was not required (Przeworski and Vreeland, 2000). Since 1973, the IMF re-established its function from a 'currency-regulating institution to an international organisation involved in the national policies of much of the third world' (Przeworski and Vreeland, 2000: 388). This process intensified in 1989 when new transitional countries needed the assistance of the IMF to undergo the transformation from a Communist to a market economy (Stiglitz, 2002). The number of client-countries increased dramatically from 21 in 1974 to 182 in 2000.

A client-country contributes to the Fund with a 'quota', the size of which is determined according to the size of the economy. The IMF approves loans to developing countries under certain conditions which they have to satisfy, typically involving fiscal austerity, currency devaluations, decreasing government expenditures

or tight monetary policy (Przeworski and Vreeland, 2000). Through collaboration, the client-country agrees with the IMF on certain policy recommendations for which the IMF 'sets the tone' (Taylor, 1993). There are four main types of agreements: the stand-by agreement (SBA), the extended fund facility (EFF), the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) (Polak, 1991). Collaboration with the IMF begins when the country decides to approach the IMF for some financial assistance. Once a draft of intent for collaboration is made, the IMF staff visit the country in order to obtain information and negotiate a programme with the government authorities of the country, which is usually drafted by the central bank or the finance ministry of the client-country. Once the negotiations are completed, the staff returns to Washington, the programme is discussed with the appropriate departments and is submitted to the Executive Board for approval (Woods, 2000). Even though the IMF emphasises freedom in the programme specification, and the procedure appears to be based on a combination of technical decision-making and a political element of the client-country's consent; testimonial from client-countries indicate scepticism about this official position (Bartilow, 1998). Client-countries have the ability to influence programmes to a certain level, depending on the strategic and economic importance of the client-countries to the IMF and the level of difficulties that the client-countries are faced with (Bartilow, 1998). Therefore, it is argued that for less politically powerful countries, negotiations might be highly one-sided.

The influential role that the IMF had established through the 1980s and 1990s was undermined significantly during and after the Asian crisis of 1996. The institution lost credibility as its expertise - the high conditionality of its rescue packages and the

competency of the resources - came under question and were challenged in practise (Gabel, 2011). Thus, the institutions' limited capacity to provide loans was focused more on the poorest countries (Chorev and Babb, 2009; Kapur and Webb, 2006; Ketkar and Ratha, 2009). However, the occurrence of the recent crises, in the US (2008) and later in the EU (2010), had returned the institution to its high pedestal of importance. Firstly because of the institution's monopolistic position and its background in the area; secondly, because of the development in the periphery of the EU and the need for financial help and control (Chorev and Babb, 2009) and finally, due to the EU policy of collaboration with the IMF in providing rescue plans with unbounded conditionality (Chorev and Babb, 2009; Gabel, 2011: 808; Lutz and Kranke: 2010).

The two main duties that the IMF is responsible for are, firstly, to identify and advise on the economic reforms that should be undertaken by a specific government in order to maximise its growth (Marchesi and Sabani, 2005). The second duty entails the control over whether the economic reforms are implemented according to the Fund's code of conduct (Guitian, 1981). Because of the importance of quality control over the implemented reforms, the Fund is given an opportunity to react and make right any deviations from the reforms (Marchesi and Sabani, 2005). However, as argued previously, the Fund did not manage to undertake and successfully complete its tasks. It is, therefore, crucial to explore in depth the nature of the Fund's original rationale and to explore the fundamental motives of the IMF.

Since the start of the crisis in 2008, the IMF has argued for a shifting of their normal position and for higher fiscal expenditures in order to deal with economies in

crisis (Spilimbergo, Symansky, Cottarelli and Blanchard, 2009; Stein, 2012). Since the economic destabilisation and decreased aggregate demand could not be resolved through the usual devaluations, and monetary policy was not a solution, Spilimbergo *et al.* (2009: 27) argue that ‘the managing director of the IMF had called for sizeable fiscal response at the global level’. However, a number of academics have contested this by arguing that out of 41 investigated accords signed in the wake of the 2008 crisis, less than five indicated some evidence for expansionary policy (Spilimbergo *et al.*, 2009; Weisbrot, 2010). It was argued that the IMF is still overwhelmingly pro-cyclical and their policies persist despite their dismal record (Stein, 2012). Even though the institution has evolved over the years, its fundamental role and main rationale of why countries should adhere to its prescription have not changed. I argue that the IMF has still not changed or shifted their reform programme with regards to the neo-liberal policies implemented in transitional economies for the period considered in this thesis. Having said this, it is significant to highlight the major critiques towards IMF’s functioning and policy design.

As argued by academics, markets are not perfect (they generate high levels of unemployment and stagnation) and ‘collective action at the global level for economic stability’ (as well as political stability) is required (Easterly, 2007; Peet, 2009; Stiglitz, 2002: 58). The main task of the IMF is to prevent global crisis by influencing underachieving countries (through increasing government expenses, decreasing taxes and interest rates) to increase the usage of their natural resources, increase demand and stimulate economic growth (Stiglitz, 2002). This financial assistance was provided to countries that were prepared to implement these suggested

guidelines and policies (Stiglitz, 2002). However, the IMF found difficult to achieve one of its main duties: analysing and investigating in depth the macroeconomic situation and economic performance of the client-countries, including assessing the appropriate level of budget deficits (Peet, 2009).

It has been argued that firstly, the Fund places its main focus on a standardised set of measures: inflation rates (not considering the economy's level of growth and employment), stable exchange rates and low deficits (Peet; 2009; Stiglitz, 2002). Secondly, according to Stiglitz (2002:58), the IMF has never established the cause-effect relationship or the 'means with ends' connection, thus, one of the problems of proposing a general policy prescription requires conducting an analysis of each country's individual situation. Finally, the IMF has to conclude if the structural reforms have been implemented according to the conditionality imposed by the Fund and whether loans will be provided (Marchesi and Sabani, 2005). However, these policies have been considered as over-conditional, generating a number of counter-effects and proving the ineffectiveness and inappropriateness of the policy programme.

Stiglitz (2002:35) argues that the IMF's approach of 'one-size-fits-all' cannot be applied in cases where economies are significantly different. Academics argue that by using the identical styles of development assistance, achieving growth in an economy has been unsuccessful (Easterly, 2007). This is particularly the case of developing economies going through a transition, where the market economy has not previously been present which might result in market imperfections (Stiglitz, 2002). In the last 42 years, although U\$568 billion have been received by African nations as

an aid for their economies, the growth that has been recorded is close to zero. In line with this Radelet and Sachs (1998) suggest that the liberalisation tasks of capital markets that the IMF undertook in the 1990s were not appropriate, and in some instances even contradictory. The liberalisation process was implemented too rapidly in developing and transitional countries despite no positive effect on economic growth (Radelet and Sachs, 1998). The implementation of rapid universal trade liberalisation made developing and transitional economies more vulnerable, which led to devastating economic and social results. Thus, when developing countries without well-developed financial institutions open their markets, instead of creating employment it leads to job destruction and loss of financial liquidity (Stiglitz, 2002). Private investors react to this by losing confidence in the market and decreasing capital flows, which is the main tool in resolving liquidity issues (Radelet and Sachs, 2000).

Moreover, the varying economic and institutional circumstances indicate that policies or regulatory regimes which might prove to be successful in one case may not work in another (Rodrik, Easterly and Krueger, 1999). According to Stiglitz (2002), thoroughness and facing every economy as a single case cannot be achieved with short visits to the country in need of such policies. This task is appropriate for highly educated and experienced economists who work on a daily basis to learn the problems that a country is faced with and find appropriate solutions to resolve those issues (Stiglitz, 2002). This suggested treatment of the economy as an individual case should provide a clear picture of the situation in which the specific client-country is in, and should result in creating a case-specific set of reforms by the Fund (Easterly, 2007).

The structural policies implemented by the IMF have as the main target the realisation of a market economy. These policies usually include the decrease of the government's influence, financial policies, trade liberalisation policies, and capital markets and exchange rates liberalisation policies, as well as privatisation policies of state-owned organisations, labour-market policies, pricing policies and many more (Goldstein *et al.*, 2003; Joyce, 2005). The conditionality attached to the IMF reforms was not laid down in the initial IMF Articles of Agreement but after the disruption of the Bretton Woods agreement the institution 'reinvented itself as an agency' with a serious involvement in a client-country's development (Stone, 2008). According to Boughton (2001), in the 1970s, the involvement of conditionality was substantial at 26%, later on in the 1980s with the occurrence of the Latin American debt crisis and the lending to African countries, the level of conditionality was increased to 66%. Finally, with the transitional Communist countries and the occurrence of the East Asian crisis in the 1990s the institution's conditionality expanded towards domestic economic structure areas which initially were outside the IMF's scope (Boughton, 2001). Feldstein (1998) argues that developing countries in need of financial assistance hesitate to turn to the IMF straight away, as they perceive these borrowings as costly and overly conditional. These countries when faced with crises issues either turn to the IMF much later or decide to borrow from regional crisis lenders, resulting in even more difficulties in resolving crisis issues (Bergsten, 2000).

In line with the above, a concern that many academics have raised is that 'the policy conditionality is flawed' (Goldstein, *et al.* 2003; Peet, 2009; Stiglitz, 2002). The numerous performance conditions, the measurement of policy success, the

benchmarks and programme reviews have generated uncertainties in borrowers' behaviour and suspicion in the completion of the structural programmes (Stiglitz, 2002). The conditionality of the IMF loans is seen as imposing on country conditions that it must satisfy in order to receive the IMF financial assistance, but which on the other hand might not guarantee repayment or might even generate negative political results (Stiglitz, 2002). An alternative perception of this conditionality is that it is the imposition of the interests of a few, powerful developed nations on developing countries through the IMF hegemony (Barro and Lee 2003; Thacker 1999). Barro and Lee (2003) have come to the conclusion that recent operations of the Fund are based on specific interests rather than objective professionalism. The size of the loan is larger and repeated when the recipient country has a more substantial portion of influence within the IMF as well as political and economic linkages with the US and other shareholders (Barro and Lee, 2003). Ramcharan (2003) highlights how there is not a significant incentive that will guide the Fund to terminate the lending if a government does not meet its conditions. When the government's debt increases, in turn imposing difficulties in repaying the loan, the benefit for the IMF relates to the country's need to lend by 'rolling over the debt' (Ramcharan, 2003). Therefore, nations with close relations to the main stakeholders of the IMF can avoid the extensive conditionality when borrowing from the Fund (Gould-Davies and Woods, 1999; Polak 1991). Stiglitz (2002) argues that the position of the IMF is authoritarian, the recipient countries of the loans are colonies that are not in a position to state their opinions on the matter, and all developing markets receive a universal policy approach.

This conditionality relates to the previous critique of the IMF's inability to detect the main cause and effect of policies implemented in a specific economy. It has been argued that the Fund's '*modus operandi*' strays from the main aim (macroeconomic and exchange-rate policies) into a bundle of structural policies which result in inconsistency and loss of reputation for the Fund (Goldstein, *et al.*, 2003: 368). The Fund's lack of expertise and professionalism to generate sound policies and suggestions in diverse areas regarding trade policy, privatisation, poverty, education, and many reforms outside the scope of the financial sector result in the implementation of an inappropriate reform programme (Goldstein, *et al.*, 2003).

Even though implementing a well-known scheme of policies and reforms in accord with neo-liberal policy-making, Garbel (2011) argues that ten years later, these policies are inconsistent and follow a universal strategy in dealing with a crisis (Singh and Zammit, 2000; Wade, 1996). As demonstrated above, they take into consideration the best policies and reforms that were effective elsewhere and simply re-apply these policies in developing countries. As stated above, developing countries have limited access to international markets; they have a less solid institutional structure and have high levels of political instability. Therefore, they are different from the developed countries which have designed the global financial regime, and must be treated differently. This does not demonstrate unequal treatment but rather a pragmatic response to the actual situation facing developing nations (Goldstein, *et al.*, 2003). The discussion in this section unravels the idea of effective implementation of policies, in order to understand this it is important to bring forward the idea of economic growth.

2.4 ECONOMIC THEORIES OF GROWTH

Achieving sustainable, long-term economic growth is the main goal of every economy. However, different economies achieve different economic growth rates, with developed economies reaching relatively higher economic growth compared to developing economies⁴. In the last decade of the 20th century, most of the developing economies encountered decreasing economic growth rates in GDP per capita. CEE, as well as EA transition economies, experienced a harsh fall of GDP rates. This severe decrease in GDP can be linked to the fall of Communism and the transition of these economies towards a market economy. Only towards the middle of the 1990s did these transition economies recover from the reform programme and begin to achieve some positive growth rates.

Mainstream economic literature covers many theories that have attempted to understand economic growth. Moreover, the majority of the current literature highlights two main theories which provide an understanding of the sustainability of long-term economic growth; the neo-classical and endogenous growth theory. By applying these theories, recent empirical studies use models which try to determine the variables which generate growth. This section reviews the development of economic growth theorisation covering the neo-classical growth theory and the endogenous growth theory.

⁴ In the last three decades of the 20th century, developed economies had an average real GDP of 2.85%, whereas developing economies reached an average real GDP of 1.6%.

NEO-CLASSICAL GROWTH THEORY

The Solow-Swan model assumes the following economic environment: a closed economy, a single good being produced, two factors (labour and capital) and two agents (firms and households). Thus, the neo-classical growth theory which entails the Solow-Swan model argues that an economy's long-run growth is dependent on changes (exogenous factors to the capital-labour ratio), such as saving, technological progress, population and capital depreciation (Solow, 1956; Swan, 1956). In other words, if two countries have the same level of technology, savings, population and capital depreciation, but vary in the level of capital-labour ratio, then the economy with the lower capital-labour ratio will grow more rapidly than the economy with the higher capital-labour ratio (Solow, 1956). Thus, the neo-classical model predicts that countries with different per-capita income will converge over time. This is named 'absolute convergence' (Swan, 1956). According to Solow-Swan (1956), economies tend to converge to their steady state, meaning that their long-term economic growth will be stable. Therefore, the neo-classical growth theory argues for a short-run growth by accumulating physical capital, and long-run growth reached through changes in the exogenous factors mentioned before.

This theory highlighted the significance of innovation for changes in the levels of technology progress, and the possible effect on the output of changes in the quality of the labour force (Solow, 1956). Even though the theory indicated some possible endogenous effects, it has not explained what generates changes to the exogenous factors to the production function. Rather, some assumptions have been made that have been questioned- such as that changes in exogenous factors are given, and that

there is a full employment of labour (Nelson and Winter, 1974). There was also no distinction between different economic sectors. The lack of ability to analyse what generates change in the exogenous factors and recent theoretical developments have considerably broadened the scope of other growth theories, such as the ‘endogenous growth theory’.

ENDOGENOUS GROWTH THEORY

The endogenous growth theory argues that even though changes are not evident in exogenous factors, long-term economic growth can be still achieved. Thus, the name of this theory is utilised by its main argument that long-term growth is achieved through endogenous factors (human capital) within the system, instead of exogenous factors (Barro and Sala-i-Martin, 1995). This theory assumes that knowledge and human capital provide increases in returns through ‘dynamic spill-over effects’ (Baharumshah and Rashid, 1999).

The largest contribution is made by the research of Paul Romer (1990) and Robert Lucas (1988), who argued that output is affected by four factors - capital, labour, human capital and technological progress. Growth can be achieved through human capital or technological progress, which in turn can be caused by knowledge build up, innovations or research and development. The main feature of this theory regards knowledge as a significant factor of the production function since investment in knowledge generates positive spill-over effects due to the ability of other agents to have access to the same knowledge once one economic agent has accessed it (Romer, 1990). With all other factors stable, the rate of growth in a country inflates over time

even with a marginally increasing production of knowledge. This leads to the conclusion that it is contrary to the findings of the neo-classical theory, developed countries grow more rapidly while developing countries grow slower. Having discussed the main growth theories, it is important to move towards visiting the economic growth research undertaken for small transition economies.

2.5 ECONOMIC GROWTH IN SMALL TRANSITION ECONOMIES

The collapse of the Communist and Socialist regimes in eastern and south-east Europe gave birth to the economies of transition. Although many economies had gone through transitional reforms earlier (Yugoslavia in the 1950s and Hungary in 1968), the official inauguration of the massive reform programme in Poland in 1990 is taken to be the beginning of the transition period (Fisher, Sahay and Vegh, 1996). This section defines the concept of small open economies and transition economies, as well as brings forward the reform process in transition economies. The main idea here is to review the literature which involves the study of the main economic determinants that bring growth to transition economies. By doing so, I present the growth model that I intend to use in this thesis and justify the determinants used.

With the fall of the Berlin Wall and the collapse of the Soviet Union—and later on the break-up of Yugoslavia—the former socialist countries began to transform their economies on the market model (Rodrik, 2006). This transformation had six key features: macroeconomic stabilisation, price liberalisation, trade liberalisation, privatisation, the creation of an alternative social safety net distinct from that which had existed under Communism, and the development of an institutional and legal

framework to support the market-based system (Fisher, Sahay and Vegh, 1996). This reform agenda was perceived by some researchers and critics as an ‘effort to impose “neo-liberalism” and “market fundamentalism” on developing nations’ (Rodrik, 2006: 975; Williamson, 2000). However, as these economies were neither developing nor underdeveloped countries, a new name was needed. ‘Transition economies’ was coined to justify the reuse of reforms from the Third World in the Eastern European countries in order to move them from a planned to a market economy (Colombatto, 2001; Meyer, 2001).

The transition economies are viewed as an interesting case to explore as they reflect the process of institution building and the remodelling of the economic system (Bevan, Estrin and Meyer, 2004). Critical scholars argue that the ‘establishment of new institutions is at least as important as more conventional macroeconomic policy objectives’ (Henisz, 2000; Kogut and Spicer, 2002; Stiglitz, 2002). This ‘completeness’ of institutions affects the strategic approach of state-owned firms, the privatisation process and the creation of new firms (McDermott, 2002; Peng, 2000; White and Linden, 2002). However, these developments were not the same amongst all the transitional economies. Often the metamorphosis of the institutions diminished the benefits from the changes and the ‘smooth’ operation of the markets ended up being heavy, infrequent and unequal amongst the countries (Bevan, *et al.*, 2004; EBRD, 2001; Peng, 2000).

It has been argued that the significant increase in the number of small economies is a consequence of the dynamic process of globalisation and the evolution of regional trading blocs. These trends, along with the economic growth of small markets, have

generated enormous interest in the economic analysis of small open economies (SOE) (Armstrong and Read, 2003). Numerous research studies have been undertaken in small markets in order to detect the challenges that these small economies are faced with and the vulnerabilities that emerge because of the economic reform process (Armstrong and Read, 2001; Gandolfo, 2002).

According to Read (2001), there are four main economic and geographical criteria that are taken into account when determining the size of the economy: population, GDP, geographical area and terms of trade, which are considered when choosing the examples of small economies in my following section 2.6. One of the most common criteria on which the SOE categorisation is based is the size of the economy due to the availability of population data, and the facility with which these statistics can be converted into ‘comprehensible magnitudes’ and used to impose thresholds (Armstrong, de Kervenoael, Li and Read, 1996; Read, 2001; Doyle and O’Connor, 2013). It has been argued that some of the initial studies of SOE in the 1960s demonstrated high population thresholds (ten million to 15 million people, or even 20 million in some cases), but a decade later the United Nations (UN) imposed a threshold of around one million, which is still officially in use (Kuznets, 1960; Robinson, 1960). The Gross Domestic/Natural Product (GDP/GNP) is another criterion which is used in determining an open economy as small; this measures the ‘aggregate value of economic activity undertaken’ in an economy (Read, 2001). However, as a defining characteristic, it faces some challenges such as the constant annual fluctuations of the GDP and the different levels of GDP per capita (considering the population), meaning that this measurement is inadequate as a

standalone criterion (Armstrong and Read, 2000). The geographical area of a country is also a measure of the available land that an economy possesses as a natural resource (Jalan, 1982). However, this criterion has also its disadvantages since it only provides information about the resources available in the economy, meaning that it is most beneficial as a complementary indicator (Downes, 1988). Finally, the terms of trade refer to the ratio of an economy's prices of imports and exports on the international market. The inability of the economy to influence its terms of trade is the criterion imposed by orthodox economic theory for SOE (Armstrong and Read, 2003). Even though many studies have suggested adding other criteria and variables, none of them has proved to be easily conceptualised and they have not generated significantly different results in comparison to the results generated by using the measures outlined here (Downes, 1988; Jalan, 1982). Having uncovered the main characteristics that define an economy as an SOE and a transition economy, it is important also to understand the economic reform process in these types of economies.

The main advantage that transition economies see in the reform process is the fact that they manage to regain control of an economy which has already become less manageable under usual government tools and otherwise, would lead to fiscal crisis (Lal and Wolf, 1986). Stiglitz (1999) argues that some economic policies implemented by governments truly impose the capital flow in the market. However, most of the regulations of the financial markets imposed by governments are there to regulate the markets (the extreme deregulation of the financial markets generates issues such as 'excessive boom-bust patterns') even in developed countries.

The crucial reason for the underdevelopment of markets is that 'the initial design of liberalisation and reform policies', along with institutional development, stimulate the growth rates and macroeconomic performance (Acemoglu, Johnson, Robinson and Thaicharoen, 2002; Masten, Coricelli and Masten, 2008: 300). It is argued that macroeconomic policies along with stable institutional frameworks are some of the important factors that impact the level of growth achieved through liberalisation of the market (Masten *et al.*, 2008: 300; Prasad, Rogoff, Wei and Kose, 2003; Roland, 2000). Some 'Washington Consensus' economists argue that there is a linear and positive relation between macroeconomic stability and economic growth in transition economies (Fisher, Sahay and Vegh, 1998). However, Stiglitz (2002) argues that the timeframe of the liberalisation projects is significant as well. Whilst the industrialised countries liberalised their markets slowly⁵, for some reason, this process was forced on the developing markets. They were expected to deregulate their markets instantly, resulting in the lack of a safety net to cushion the blow from the implemented reforms (Stiglitz, 2002: 65). This is one of the reasons why economic reform policies have not always led to growth.

Moreover, academics find that financial integration might have a positive effect on transitional economies through many ways (Boyd and Smith, 1992). However, the literature suggests that the level of materialisation of the positive effect on growth is dependent 'on the market imperfections and distortions, with weak institutions and [the] legal system playing a role' (Boyd and Smith, 1992: 412). By

⁵ The reform process took place from the signing of the Washington Consensus in 1944 till the 1970s.

improving the allocation of the capital of developing national financial markets, the institutional structure of the market improves (Bekaert, Harvey and Lundblad, 2001; Giannetti and Ongena, 2009). Thus, as the higher competition of foreign financial institutions decreases the cost of intermediation, this, in turn, increases the request for funds and expands the size of the domestic market, and issues with asymmetry in the flow of information are lowered and there is better regulation of policy and stability (Klein and Olivei, 2005; Masten *et al.*, 2008). Other academics argue that the relationship between financial integration and growth is not straightforward; it depends on timing, the level of development of countries, the level of income of countries and the developed region to which the country belongs to (Berthelemy and Varoudakis, 1996; Odedokun, 1996; Rioja and Valev, 2004).

Winkler (2001) also states that the causes of stabilisation and liberalisation policies are often dependent on the economic performance of the transitional country. Low growth can be a result of the corporate governance or the inadequate privatisation processes. Both Winkler (2001) and Roland (2000) have highlighted that small transitional economies do not achieve economic growth in some cases, because of the underdevelopment of their corporate governance as well as due to the inability of transparent privatisation reforms to be implemented in the economy. Rizov (2001) argues that access to resources and capital plays a crucial role in achieving economic growth in transition economies. Thus, the entrepreneurship which is vital for economic growth in a transition economy is often faced with cultural limitations, limited access to human and physical capital, resources and external financing and market imperfections (Rizov, 2001).

Considering the variety of research investigating the types of economic reforms that bring growth to transitional economies, it is unclear which specific economic determinants bring growth. This is crucial if policy-makers are to understand which reforms are more beneficial for the growth of the transitional economies, and which are less beneficial.

2.6 GROWTH DETERMINANTS IN TRANSITION ECONOMIES

More than 30 countries from the former Soviet Union and former Yugoslavia have undertaken the process of economic transition from a centrally planned to a market economy. According to mainstream economic theory, the transition process entails the broad areas discussed in the previous sections which focus on the creation of a market economy (including a market-based financial system) (Fischer and Gelb, 1991). Therefore, provided that the goal is to move to a market economy, there has not been much disagreement over the generally accepted policies that are needed for economic development (Fischer, *et al.*, 1998).

There is a large body of empirical evidence of determinants' effects on growth in transition, which can be summarised in a few points. The mainstream empirical literature demonstrates that the most intense liberalisation and restructuring in a country, the higher the growth, meaning that the fast reformers have higher growth rates (de Melo, Denizer, Gelb and Tenev, 1996; Hernandez-Cata, 1997). The endogenous growth theory explained that factors within the system affect growth. In line with this, many studies have focused on an analysis of the determinants of growth in transition economies (Falcetti *et al.*, 2000; Fischer *et al.*, 1998; Havrylyshyn,

Izvorski, and Rooden, 1998 and Hernandez-Cata, 1997). Here, I evaluate and identify the models of strategic importance for determining economic growth in a small, open and transitional economy.

Empirical studies so far have used a panel, cross-section or time-series data to investigate the determinants that explain economic growth. Panel data has been used in order to analyse the dynamic effects of economic growth amongst and within countries (Barro, 1997). Cross-section data is utilised to study the ‘neo-classical convergence’ and investigate the variables that influence economic growth across a sample of countries (Mankiw *et al.*, 1992). Finally, time-series data are utilised to investigate the determinants of economic growth within one economy. The time-series method is applied in this thesis.

A significant amount of research has focused on the more advanced (i.e. CEE) countries in transition (Bevan and Estrin, 2000; Resmini, 2000) and 25-plus transition economies with different levels of advancement (Campos and Kinoshita, 2008; Garibaldi, Mora, Sahay and Zettelmeyer, 2001). Most studies that attempt to quantify the effects of various factors to growth usually analyse a large group of economies looking at the data for a period of 30 years. For example Sala-i-Martin (1997) has undertaken a similar study which analyses the robustness of 59 variables to economic growth for a longer period. However, when analysing the determinants of growth in transition economies (for which usually ten years of data is available), short-term growth is analysed rather than long-term growth (Radulescu and Barlow, 2002). Considering the analysis of short-term growth, some of the variables (such as population, secondary school enrolment and investment) are less relevant in transition

economies than others (during Communism ‘secondary school enrolment was high and investments were artificially high’) (Radulescu and Barlow, 2002:721).

Empirical studies included in the IMF staff papers highlight that the main pillars of economic growth, in the long run, relate to determinants regarding stabilisation, liberalisation, initial conditions, institutionalisation and traditional factors (Havrylyshyn, 2001). Almost all of the studies have included determinants of stabilisation (such as inflation, fiscal deficit, etc.) and the results indicate that these determinants are almost always significant (Fischer *et al.*, 1998). Only in some cases are exchange rates regarded as significant, but the majority of the researchers argue that the role of this determinant of growth is not explicit (Fischer *et al.*, 1998).

Another issue mentioned previously is the liberalisation and structural reforms which cover the major elements of the Washington Consensus in an aggregate index (Sachs, 1996). Panel data studies show that this aggregate index, which includes all the reform variables, demonstrates a significantly stable coefficient; whereas when the reforms components are regarded separately, demonstrate mixed results regarding the significance of the coefficients (Aziz and Wescott, 1997). Therefore, the more structural or liberalisation reforms the country implements, the better the growth performance and it is the reform package that counts rather than each reform specifically (Berg and Pattillo, 1999; de Melo *et al.*, 2001).

The third issue mentioned previously is the initial conditions (over-industrialization, price distortions, etc.) of countries as an effect on growth. According to more recent studies, initial conditions explain some of the differences in growth between countries in the CEE region but, the effect of these determinants is limited

and is adverse in early years before disappearing over time (Berg and Pattillo, 1999). Institutionalisation is another important issue. Studies indicate that the incorporation of such determinants (which have been collected through surveys for the specific studies, due to the inexistence of data) show strong significance to growth (Havrylyshyn, 2001). The final aspect is the determinants related to traditional factors input (more specifically, investment). The more recent studies which include factor productivity calculations show that investment is not a significant determinant of growth (Barro and Sala-i-Martin, 1995; Campos and Kinoshita, 2008; De Broeck and Koen, 2000). Through these studies, academics argue that this is not a surprise since the transitional economies have had a short period to recover from the structural transformation.

The empirical literature presented here has been successful in framing the discussions around the importance of reforms amongst academics and policy-makers. It must be highlighted that the majority of the empirical studies presented above follow the mainstream understanding of economic growth supported by the IMF. Furthermore, these results, which have been obtained by studying various samples through different econometric methods and variables, lack the ability to highlight the relative importance of reforms (Havrylyshyn, 2001). All of the results presented above use a sum of various reforms indices and argue that this measure is correlated with growth; only a few studies were able to specify the reforms that are significant to growth (Havrylyshyn *et al.*, 2001). This is perceived by academics as a result of the multicollinearity that exists amongst the determinants of the individual reforms. The poor data quality, small amount of theoretical guidance and changes in the growth of

transitional economies generates imprecise estimates of coefficients (Havrylyshyn, 2001).

Having presented the studies which analyse the economic reform process in transition economies and the benefits that this brings to the countries in the form of economic growth, I move towards analysing different cases of economic reform programmes in other transition economies. I believe that this is important to understand to what extent such economic reform programmes bring benefits for economies with similar characteristics.

2.7 VULNERABILITIES IN SMALL TRANSITION ECONOMIES

Even though market reforms have been implemented, research in the last decade has indicated the sudden deterioration of the global economic and financial environment. This along with the contraction of capital and financial flows has greatly affected the developing and transitional markets in Europe, as they are the most vulnerable to these kinds of fluctuations. Some of the most extensive economic reform programmes implemented by the IMF in the 1990s were within the regions of CEE, LA and EA. In this section, I analyse the economic reform programmes in these regions by considering one small transition economy for each region.

Since this section focuses on small economies in transition, I struggled to identify an East Asian economy which is appropriate for this analysis. The smaller economies have either not undertaken market reforms, are a city state or are still a Communist country. I have therefore chosen Thailand as a representative of the East Asian region, mainly because this economy has been extensively affected by the IMF

policies and the crisis which occurred later on. Similarly from the CEE region, I have used the Latvian case, because it is regarded as a small economy and it has undergone deep structural reforms as part of the transformation programme orchestrated by the IMF. Finally, from the LA region I am analysing the Uruguayan economy because it is one of the smallest economies in LA and it has undergone a long transition process as part of the economic reform programme of the IMF.

URUGUAY

During the final two decades of the last century, the LA countries initiated and undertook deep reforms to restructure and modernise their economies. Here I look at the reform programme implemented, but also its limitations. Each and every country strived to move away from their protectionist regime and governmental controls and began implementing market-oriented policies (Edwards, Diaz and Fraga, 1999; Hausmann, Panizza and Stein, 2001). However, according to Mishkin and Savastano (2000), the 1990s were a more conducive environment for the LA markets, with low levels of inflation due to the adoption of stabilisation programmes which resulted in an intense inflow of capital (Calvo and Talvi, 2005). It has been argued by a number of academics that the essential economic policies and political reforms implemented in the LA countries, as well as the restructuring of their debts and macroeconomic policies, attracted capital inflows as well as generated an increase in real exchange rates (Calvo, 1998; Mishkin and Savastano, 2000; Hausmann *et al.*, 2001). This indicates that the cause of this flow of liquidity cannot be independent of domestic reforms (Clavo and Reinhart, 1996; Calvo, Leiderman and Reinhart, 1993).

In the years before the signing of the agreement with the IMF, Uruguay noted a surplus in the balance of payments and current account balance, and the level of foreign reserves was strong (Vreeland, 2003). However, the low levels of investment and the high levels of debt and inflation forced the government to initiate economic reforms, initially by cutting the budget deficit. The IMF programmes in the 1970s successfully lowered the budget deficit, but in the 1980s, the country was coming out of military dictatorship, leading to poor economic performance, high inflation rates and falling into budget deficit as it started and completed each IMF programme (Vreeland, 2003).

Uruguay is a middle-income, agricultural export economy which initially followed an industrialisation strategy. The government has been seriously engaging in market-oriented reforms committed to liberalising the trade by establishing democratic regime and fiscal management, but which have been outweighed by ‘defeats of major state reforms initiative in the legislature and referendums on privatisation and social security reform’ (Blake, 1998: 8). Given Uruguay’s developed political institutions, the country has been regarded as one of the most stable democracies in LA (Moraes, Chasquetti and Bergara, 2005). The country’s stability is a result of the way policy-makers, institutions and actors work together to achieve successful implementation of policies (Lora, 2001). Therefore, the policies implemented around the budget deficits are the most appropriate examples which indicate the effect of politics and institutions on policy results and growth. However, Uruguay has some vulnerabilities which have implications for policy-making and implementation within this context. The economic reform in Uruguay has not made a

large amount of progress, especially due to the previously mentioned ‘reversal of government-led state reform campaigns’ through the legislature and referendums (Blake, 1998: 8).

According to Vreeland (2003), Uruguay’s especially strong reserve position was not a good enough reason for the country to avoid the support from the IMF. Instead, an agreement was signed in the early 1990s to strengthen the balance of payments. The reform programme in Uruguay focused on ‘strengthening public finances and credit policy’ (Vreeland, 2003: 41). The rising budget deficit in Uruguay generated the need for a reduction in the size of the public sector as well as an improvement in the public finances. These intentions led to the need for privatisation and restructuring of the social security system, which was much criticised in the literature (Vreeland, 2003). The one year reform programme was declared as successful as with increased taxes and decreased government expenditure, Uruguay recorded the highest level of surplus (Vreeland, 2003).

At the end of the 1990s, after nearly a decade of economic reforms and growth, the Uruguayan economy was overtaken by economic distress. A rapidly progressing crisis overtook the financial system which generated decline of the per capita GDP by 11.4% and the exchange rate decline by 90% (Pellegrino and Vigorito, 2005). As a result of this crisis, firms began to close down, the unemployment rate reached its highest level in the last two decades and the national currency depreciated (Pellegrino and Vigorito, 2005). This led to a loss of confidence in the Uruguayan market and international commentators argued that the country would need a miracle to avoid disaster (Taylor, 2007). It was argued that this crisis was related to the eight-

year global crisis which had spread across Russia and Argentina. According to De Brun and Lincandro (2006) the ‘triple’ Uruguayan crisis (public debt, banking sector and currency) could not be solved even with the largest financial package offered by the IMF.

Even though it has been mentioned that the domestic policy of LA countries is to blame for the failure of the IMF policies (Wiesner, 1985; Enders and Mattione, 1984), it is rather puzzling that so many separate economies in LA were able to mismanage themselves (Diaz-Alejandro, 1985; Mussa, 2002; Powell, 2002). According to some academics, the fact that the IMF programmes have not been successful in LA countries can be explained by four main factors. The poor institutionalisation made the LA countries more vulnerable to external shocks. This issue coupled with the poor macroeconomic management, the lack of policy credibility and the ‘one-size-fits-all’ nature of the stabilisation programme resulted in ineffective policy reforms which further weakened the LA economies. These issues lead to the poor performance of the stabilisation programmes (Fernandez-Arias and Montiel, 2001; Rigobon, 2002; Joyce, 2005). Fernandez-Arias and Montiel (2001) add that the instability of inflation rates, as a result of the trade shocks and the sudden movements of international capital, coupled with the volatile macroeconomic policy, are regarded as crucial to the instability and stagnation of the economy.

As far as the spread of the crisis to Uruguay is concerned, it is argued that the tight relation of the country’s banking sector to Argentine financial institutions is the main reasons for it. The Uruguayan economy failed to protect itself from the possible financial spill-over from the Argentine crisis, or to at least diversify the financial

collaborations with other economies in the region (Reinhart, Kaminsky and Vegh, 2003). As a result of this, the significant deposits in Uruguayan banks by Argentine citizens vanished as they fled from the country back to Argentina, once Argentina declared a freeze on people's deposits in 2001 (Reinhart *et al.*, 2003). However, this was not the only reason. As argued by De Brun and Lincandro (2003), the IMF programme was inappropriate for several reasons. One was that the amount of financial support provided by the IMF was insufficient considering the damage the Uruguayan government reserves experienced. De Brun and Lincandro (2003) critique the IMF's traditional way of disbursing as inappropriate in such a severe liquidity distress case. Finally, the IMF's intention to provide help to the Uruguayan economy was 'taken with a pinch of salt' because of the institution's abandonment of Argentina (De Brun and Lincandro, 2003).

THAILAND

Investors from developed countries in the 1980s and 1990s perceived the emerging markets as a haven for increased returns and lower risks to their investments. Thus, the IMF and the US Treasury urged EA countries to liberalise their capital accounts, to open their markets, deregulate interest rates and loosen the reserve requirements on banks to achieve rapid growth (Chang and Velasco, 1998). The quick liberalisation of the market, the lack of government intervention in the case of the vulnerable domestic companies towards external debt, and a rapid influx of a large volume of 'hot' foreign investment caused this crisis (Gore, 2000; Goldstein *et al.*,

2003). All of these issues, as explained below, resulted in the IMF's misdiagnosis and led to larger control and influence on the domestic economic operations of the country in crisis (Gore, 2000; Goldstein *et al.*, 2003). It has been argued that the factors that led to the occurrence of the EA crisis were not only macroeconomic flaws. They were more of a 'moral hazard' emerging from the mismanagement of national institutions, including the deficiencies rooted in the IMF that influenced weak investments (Chang, 2000; McKinnon, 1973; Frankel, 2000). This institutional mismanagement discouraged investors and led to pulling back of the weaker investments.

The fact that the Fund neglected the financial structure of the EA economies, which were different to the other clients-countries of the IMF, generated higher costs and lower benefits for these economies. This indicates the institution's generic, universal approach (Wade and Veneroso, 1998). The Fund's plan was to increase interest rates and attract foreign capital whilst at the same time implementing fixed exchange rates. The aim was to generate confidence amongst foreign investors so they could exchange their currencies without any risk of devaluation (Bullard, Bello and Mallhorta, 1998). Stiglitz (2002) argues that this was not necessary as the EA countries had already high levels of savings. This standardised IMF approach in deregulating the financial market in EA was the main factor that led to the crisis. The IMF encouraged the EA economies to undertake capital account liberalisation, arguing that this would lead to economic stability and diversification of funding sources by confronting the capital market regulations - without which countries would achieve economic efficiency (Feldstein, 1998). Stiglitz (2000) argued that this capital account liberalisation leads to pro-cyclical capital flows during a crisis (when

necessary) and capital inflow during a boom (generating inflationary pressure). Thus, the economic stability promised by the IMF was difficult to achieve (Goldstein *et al.*, 2003). This is where the universality of the IMF policies is detected. As mentioned before, the EA economies operated in a different way, control mechanisms in the economy had maintained high levels of savings (Stiglitz, 2002). The IMF policies which were implemented to achieve financial deregulation of the market removed many of the measures established in the economy which provided stability conditions of the EA high debt model (Wade and Veneroso, 1998). Wade and Veneroso (1998) argue that the IMF's idea to restructure the EA economies and make them follow the familiar pattern of Western markets was not thought through, especially since the countries had not developed a stock market, or stable banks or other essential financial institutions.

Government officials of EA countries realised that the IMF policy of rapid liberalisation of their market was a destructive policy leading to a high inflow of highly volatile investment and making the economy vulnerable to any potential outflow of that capital (Bullard *et al.*, 1998). The crucial implication of the liberalisation process in the EA countries was the demonstration that 'FL is strongly correlated with a fall in the bank's liquidity', as indicated by Demirguc-Kent and Detragiache (2001). The explosive increase in short-term international liabilities, due to the liberalisation of the market and reduction of barriers, influenced the international liquidity position (Chang and Velasco, 1998; Radelet and Sachs, 2000). However, the currency composition of these liabilities and increased borrowing in foreign currency resulted in an increase of the total obligations denominated in

foreign currency, creating a vulnerable economy to sudden shocks or loss of confidence (Chang and Velasco, 1998).

The IMF has imposed very detailed macroeconomic conditions on the EA economies. According to Feldstein (1998), it is unacceptable for a financial institution to intervene in the domestic economic policy and structure of the economy to this extent (Radelet and Sachs, 2000). This universal IMF approach, according to Wade and Veneroso (1998) had produced enormous social costs whilst trying to reduce the newly established high debt system. The Fund was criticised for its inability to consider the economic and social costs of its actions. As a result, the Thai economy became quite vulnerable to abrupt fluctuations in the market and changes in the confidence of investors (Corsetti, Pesenti and Roubini, 1999).

The Thai economy was growing strongly in the years before the crisis. By 1996, the level of exports began to decrease and the very rapid growth of the economy which resulted in a property market boom was stagnating as well (McIntyre, 2001). This led to an uncertainty in the stability of the 'non-bank financial institutions' and as short-term foreign loans were issued, it was obvious that the Thai currency (the Baht) would be affected (McIntyre, 2001: 96; Stiglitz, 2002: 105). Not being able to react to these effects from the rapid liberalisation, the IMF's conditionality lead to capital outflow which resulted in a crisis spreading to Indonesia, South Korea, and Hong Kong (Stiglitz, 2002; Feldstein, 1998).

At the beginning of 1996, the Thai government decided to halt trade on the stock market in order to implement some protective measures. The increased provision that banks needed to put on the side for bad debt did not stabilise the

market. Neither did the government's intention to increase the capital of the ten weakest financial companies (McIntyre, 2001). On the contrary, when trading on the stock market was re-opened, investors withdrew all their investments and share prices collapsed (McIntyre, 2001). Because of the lack of investor confidence in the market, the unstoppable decrease of exchange rates and the decrease in borrowing and capital outflow uncovered the inability of the government to come through with the reforms and policies that needed to be implemented (McIntyre, 2001). As Stiglitz (2002) characterises it, it was a 'speculative crisis': investors anticipated that the value of the currency would fall and started exchanging their money into dollars causing a collapse in the Thai currency.

In order to protect its currency, the Thai government started selling dollars and buying local currency, decreasing its reserves in dollars. Thus, the currency depreciated (Stiglitz, 2002). The call for help that the government directed to the IMF was in fact to resolve a crisis which was caused by the Fund's prescription of market liberalisation reforms, which had generated an unexpected effect and led to the over-borrowing of the private sector (Bullard *et al.*, 1998). The IMF intended to restore investor confidence by lending money to the government and at the same time sustain the level of exchange rates. It believed that if there was a substantial government reserve than there would be no reason for 'attacking the currency' (Stiglitz, 2000: 96; Goldstein *et al.*, 2003).

The loan did not achieve the intended effect. On the contrary, all the loans made from Western banks were used as a bailout for the international banks (Stiglitz, 2008). The IMF's intention of sustaining the exchange rate just provided a chance for

wealthy people to exchange their money into dollars and take it out of the country (Stiglitz, 2002). Thus, academics argue that what might have initiated the crisis could have been a loss of confidence in the market and the country's whole financial system, as well as a speculative attack (Kaminsky and Schmukler, 1999).

LATVIA

In the early 1990s, the economic reform process that had occurred in the LA and EA economies were a warning to post-Communist countries that joining a system of liberal democratic law and economic restructuring would not be an easy path to follow (Staehr, 2003). It was argued by Sachs (1994), that the CEE countries should aim to create market institutions that would have been successful at operating in the global economy. According to Sachs (1994), the restructuring programme in the economies of the CEE aimed to focus on the price system, ending excess demand, exchange rates and tax reforms.

In the former Soviet Union, the beginning of the 1990s was characterised by 15 countries using the same currency and with their central bank in Moscow creating credit. The cost of inflation was spread throughout the union and each government obtained their seigniorage from credit creation (Rosefielde, 2005). The final collapse of the Soviet Union socialist economic regime and its controlled monetary policy produced economic chaos that later led to inconsistency in the implementation of reforms and a currency which was not widely accepted (Gaidar, 1997). The break-up of the Union also generated many independent countries in the CEE region in need of economic market reforms.

The situation in the former Soviet Union countries at the beginning of the 1990s was characterised by an increase in the money supply (which undermined the value of the national currency), increased budget deficits (30% of GDP), no coordination in the printing of money amongst the 15 countries (each one printed independently), an absence of the key institutions of a market economy and an inability to service its foreign debt (Gaidar, 1997). Since the aim of this section is to focus on case studies of other vulnerable small economies, here I am focusing on the Latvian economy.

After the Second World War, Latvia became a member of the Soviet Republic. The rapid industrialisation during the USSR era transformed the economy from a mainly agricultural to an industrial economy; this generated a massive immigration from rest of the Soviet Republic into Latvia. The creation of large enterprises in the heavy industry increased the Latvian output exported to other Soviet republics. Following a forty year period of central planning as part of the Soviet socialist model, after the USSR break-up, Latvia was considered 'inefficient, distorted, and experiencing growing macroeconomic imbalances' (Shteinbuka, 1993:62). However, Latvia was in a better condition compared to other Soviet republics, due to the rapid industrialisation (Shteinbuka, 1993:62).

Amongst the various external institutions that provided strategic economic assistance driving the country towards a stable transition to a market economy, the IMF had taken a central role even though it was criticised many times (Gould-Davies and Woods, 1999; Sachs, 1994; Wedel, 1998). The reforms implemented by the IMF were categorised in two generations of reforms. The first generation involved

macroeconomic stabilisation, privatisation, control of inflation rates, trade and price liberalisation and removal of protection in the economy (Gould-Davies and Woods, 1999). The second generation of reforms included the stimulation of growth, oversight of the financial sector, transparency of fiscal policy, flexible labour markets, transparency in the judicial system and quality of governmental expenditure (Gould-Davies and Woods, 1999).

The main milestones of the market reform programme suggested by the IMF for the Latvian economy focused on liberalisation of the prices, tight fiscal, monetary and income policies (Shteinbuka, 1993). At the beginning of the 1990s, Latvia undertook a market reform programme as an independent country which initially involved macroeconomic stabilisation reforms and the introduction of the national currency (Shteinbuka, 1993). However, these reforms introduced a deep recession which created a massive decrease in output and the deterioration of social conditions in the country. This recession in the early 1990s was a result of numerous interrelated factors, some of them external, such as the collapse of the ex-Soviet Union markets and institutions. Some of them were internal, such as the restrictive policies to maintain macroeconomic stability (Fleming and Talley, 1996; Shteinbuka, 1993). There was also the failure of payments within the rouble zone and price shocks led to output decline. The privatisation process in Latvia demonstrated insignificant progress due to the discussions that dragged on for two years before any privatisation measures were introduced. Once privatisation began, it focused on privatising smaller companies rather than medium and large enterprises; this led to the need for privatisation institutions to be developed which would focus on policy-making and

implementation functions (Shteinbuka, 1993). The economic results of the anti-inflationary policy by the Latvian Government in 1992 indicated that the country was moving on the same path as the other members of the Commonwealth of Independent States⁶. More specifically, financially Latvia had managed to stabilise domestic prices and in parallel, the Bank of Latvia decreased interest rates since the rouble had become stronger (Shteinbuka, 1993). Furthermore, according to the reform programme suggested by the IMF, the state budget was stable within the planned limits and the current account and trade balance demonstrated a surplus (Shteinbuka, 1993). However, the effect on the real economy was not so positive. The level of economic activity after the price shock and even more after the introduction of the Latvian rouble moved in excess supply (to replace the excess demand) (Shteinbuka, 1993). This, in turn, generated demand and supply shocks which created a sharp decrease in output.

Both Latvia and Estonia have been considered successful cases of the economic policy reform programme supported by the IMF; they have had a rapid recovery from the economic distress in the 1990s. However, the fundamental structural problems in the Latvian private sector have generated unforeseen effects on the state-owned enterprise privatisation. The transition process in Latvia was based on economic, social, legal, political and other changes, the complexity of which resulted in a significant amount of uncertainty (Shteinbuka, 1993). This created unstable and less predictable conditions for economic development. Some obstacles occurred in the

⁶ The Commonwealth of Independent States (CIS) was formed when the former Soviet Union (now Russia) totally dissolved in 1991.

late 1990s and early 2000s, such as the Latvian banking crisis in 1995, the effects of the Russian crisis on the Latvian economy in 1998, and the credit boom in the new millennium (Fleming and Talley, 1996).

Many factors had led to the vulnerability of Latvia to a banking crisis, but one of the most direct factors was the mistakes made by enterprise borrowers, the bankers and the banking supervisors during the country's transition period toward a market economy. Therefore, it was expected that these irregularities would generate banking difficulties as long as the real sector did not undertake market reforms, then complete the transition period and move to a 'steady state' (Fleming and Talley, 1996:9). Moreover, the stabilisation programme implemented by the IMF in Latvia, according to Fleming and Talley (1996) led to the variation in market interest rates. These fluctuations in conjunction with the tight monetary policy which was focused on the already-high inflation rates resulted in highly positive interest rates which made it difficult for loans to be repaid (Fleming and Talley, 1996).

According to academics, the Russian crisis in 1998 had a significant impact on the Latvian economy. The Latvian economy was hit hard by the Russian crisis. The registered slowdown of economic output in Latvia caused the economy to shrink by 40%, which represented the largest decrease in the CEE region (Taro, 1999). As a result, of the Russian crisis, the FDI levels in Latvia were significantly affected and noted a 50% decrease in 1998. Furthermore, the foreign reserves and the current account deficit of the Latvian economy were also affected by the Russian crisis, since the country was still largely dependent on trade with Russia.

According to Corder (2009), after a credit boom at the beginning of the new millennium, Latvia suffered from the retraction of foreign capital (which was frequent in other CEE economies). This was a counter-effect of the pro-cyclical fiscal and monetary policy supported by the IMF and the funding assistance provided by the EU (Corder, 2009). The recovery from this economic stagnation was made even more challenging due to the decision by the Latvian authorities (according to suggestions by the IMF) to maintain a pegged exchange rate with the Euro (Sachs, 1996). Corder (2009) critiques this action by arguing that the aim to reduce the current account imbalances in Latvia was achieved by paying the price of decreased imports and exports, which lead to lower real wages. It is worth highlighting that this set of policy proposals was also implemented in the Argentine economy which. In order to maintain the over-valued currency, the policies suggested by the IMF prolonged the depression until the Argentine currency collapsed.

2.8 CONCLUDING SUMMARY

The role of this chapter was to provide a background literature review of the main duties of the IMF in the process of economic liberalisation in transitional and developing economies, as well as to discuss the literature on economic growth theories and determinants. The world economy has expanded, especially since the 1990s, despite the ineffective economic reform policies demonstrated in this chapter. The debate revolves around the question: to what extent did the transitional and developing economies benefit from this expansion? The primary aim here was to determine the degree to which the economic reform process was effective in transitional economies.

To do this, I felt it is important to provide a short overview of the most relevant economic growth theories which help explain the macroeconomic determinants that bring growth to transition economies. Therefore, this chapter began with a summary of the most important aspects of neo-classical growth theory, which explained that growth can be determined only by exogenous factors without providing understanding about the causes that generate changes in these exogenous factors. The endogenous growth theory was developed because of these shortcomings and highlights the endogenous factors as causes of change in exogenous factors, and in turn in the growth of the system. In other words, this theory brought to the surface other determinants that affect economic growth, such as FDI and privatisation. The analysis of the literature on economic growth and determinants assisted me in finding the appropriate model to use in my thesis, which is presented and analysed in detail in Chapter 6.

A significant amount of literature has focused on determining a country's macroeconomic vulnerability for both developing and developed countries, but the literature has not provided an extensive focus on economies in transition (Roubini and Wachtel, 1999). This chapter also contributed to this body of literature by providing a more detailed insight into the reasons for the inefficiency of the set of policies implemented in the three different small transition economies. As presented previously, I explored the IMF's prescriptions for economic health issued to countries in fiscal or monetary difficulty and examined to what extent these prescriptions were active in 'curing the patient', finding instead they 'exacerbated the sickness' (Peet, 2009).

As pointed out in the previous examples, the major failure of the IMF and the policies implemented was the over focus and the persistence of the belief that tight monetary and fiscal policy would be enough to attract capital inflows from investors through rapid privatisation (Taylor, 1986). This led to the previously mentioned argument that the IMF has been applying a ‘one-size-fits-all’ approach, believing that the ‘best practices’ that had been effective in other economies would also be effective in the above-examined cases (Stiglitz, 2002: 59). As Pastor (1989) argues, the set of adjustments that the IMF had proposed to resolve the financial distress of these economies did not apply considering the particular characteristics of these economies, their conditions and circumstances. This again relates to the IMF’s usage of a standardised set of neo-liberal policies and over-conditionality and avoiding responsibility for the unsuccessful implementation of the reform programme by blaming the client-countries for their lack of cooperation. This chapter also provided insight into the institution’s duties, the underlying assumptions of the mainstream neo-liberal economic theories and determinants of growth (IMF) along with the practical examples from history. My aim was to provide a better understanding of what the economic reform programme involved, and to what extent it has been successful in the past. However, it remains to present in detail the context under investigation – the Macedonian small transition economy, and the next chapter in this thesis does this.

CHAPTER 3

THE MACEDONIAN CONTEXT

3.1 INTRODUCTION

The previous chapter assisted in uncovering the IMF's role in other transition economies alongside the benefits of the economic reform process on economic growth. Having said this, since the aim of this thesis is to investigate the role of the IMF and the economic reform process in a transition economy such as Macedonia, it is essential to show the context under investigation. The principle aim of this chapter is to present the context for my study by offering a thumbnail sketch of the country of Macedonia including its economic, socio-political and historical background. A secondary aim is to argue that the relationship between economic reform, macroeconomic stability and economic growth is much more complex and indirect in small, open and transitional economies. Moreover, I argue that to critically evaluate the policies implemented by the international financial institutions (IFI), it is necessary to understand better the unique character of the Macedonian context.

Macedonia is a small country located in the centre of the Balkan Peninsula in South-East Europe (SEE). The territory of Macedonia today is one-third of the territory of Ancient Macedonia, which was constituted by the northern region of Greece, the south-west part of Bulgaria, a small part of south-east Albania and a small

part of south Kosovo and Serbia⁷. Macedonia is landlocked by its neighbours Kosovo and Serbia (to the northeast and north-west respectively), Bulgaria (to the east), Greece (to the south) and Albania (to the west). The population of Macedonia is 2.1 million citizens based on forecasted data from the United Nations in 2012 (a census has not been conducted since 2002). The capital is Skopje, the main language is Macedonian and the majority religion is Christian Orthodox.

For centuries, the Balkan Peninsula has been a meeting point for the Western Catholic, Greek Orthodox and Southern Muslim faiths, or as Horvat (1971) puts it in economic terms, a meeting point of the capitalists of the West, the Eastern centrally planned and the underdeveloped South. In more recent history, the territory of Macedonia formed part of the Ottoman Empire from 1371 until 1913, during which time the Ottoman Turks dominates the culture. After the Russo-Turkish war and according to the Treaty of San Stefano in 1878, the territory of Macedonia was placed under Bulgarian legislation (Encyclopedia, 2014). After the second Balkan war of 1913 and the defeat of Bulgaria by Serbia and Greece, the Macedonian territory was divided. Greece and Serbia carved up the majority of Macedonian territory between them, with the small area remaining coming under the control of Bulgaria and Albania (Encyclopedia Britannica, 2012). At the end of the Balkan wars (1912-13), Serbia, which obtained the territory of today's Macedonia, joined with Croatia, Slovenia and Montenegro. These countries formed the Kingdom of Serbs, Croats and Slovenes,

⁷ See the map reproduced as Figure 3.1

which in 1929 was renamed Yugoslavia, meaning ‘the southern Slavs’ (The Balkan Pages, 2014).

During the Second World War (WWII) Macedonia was under Axis occupation (Bulgaria, Albania, Italy and Germany),

as was Yugoslavia. However,

Macedonian partisans (members of the people’s liberalisation army of

Macedonia) part of the Yugoslav

Partisan movement began a political-

military campaign against Bulgarian

occupation (part of the joint forces with the Axis) (Miller, 1975). Until the late

1942, the partisan movement in

Macedonia had few successes.



Figure 3.1: Macedonia as part of Yugoslavia

However, armed resistance increased during 1943 (with the capitulation of Italy and the Soviet victories over the Nazi Germany and the re-emergence of Tito in the communist debate), reaching levels of serious revolt in the South region of Macedonia (Miller, 1975). Tito condemned autonomist movements of the Macedonian Communist Party and argued that success can be achieved only through collaboration with the Yugoslav Party (Miller, 1975). By establishing working relationships with the Albanian and Greek partisans, the Bulgarian communists had little influence in Macedonia and in Jajce in November 1943 (in Bosnia-Herzegovina near Sarajevo), the Yugoslav communist party recognised Macedonia as one of the

six Yugoslav republics (Miller, 1975). The Yugoslav Federation was re-established in 1945 after the defeat of Germany in the WWII.

With a population of 20 million situated in the centre of the Balkans, Yugoslavia was a country with two alphabets, three religions, four languages, five nations and six federal republics (Horvat, 1971). This amalgam was expected to bring about turbulent events in a country where the population had lived through all three of the world's dominant economic regimes: capitalism before the WWII, a central planning system after the war and self-governing socialism in the last years of the federation's existence (Horvat, 1971). According to Horvat, the astonishing economic development that took place in the late 20th century at a tremendous pace of change brought a 'tradition of no tradition, a tradition of change' (1971: 78). In this environment of President Tito's Yugoslavia, one of the poorest republics in the Southern part of the territory was Macedonia. After Tito's recognition of the Macedonian Republic as a separate territory and its people as Macedonians with their language and culture, the country remained as part of the sovereign state of Yugoslavia until 1991 when it declared its peaceful independence⁸ (CIA, 2014).

Since its independence, Macedonia has been a member of the United Nations (1993), but due to Greek fears that the country's name implies territorial ambitions towards the northern region of Greece, Macedonia was admitted to the UN under the provisional reference of the Former Yugoslav Republic of Macedonia –FYROM. In June 1999, the 'Stability Pact', in which the EU took a leading role in designing it,

⁸ See the map reproduced as Figure 3.1 (UN, no date)

was signed by all the Balkan states (except the Former Republic of Yugoslavia). The EU member states, Russia, Canada, USA and Japan, the European commission and other international financial organisations were also the endorsers of this pact (Bartlett, 2007). Bartlett (2007) highlights that the aim of the ‘stability pact’ was to end the tension and promote democracy, as well as establish market economies founded on solid macroeconomic policies. In 2005, Macedonia became a candidate to join the European Union and applied for NATO membership. Shortly after that, in 2008, its accession to NATO was blocked by Greece due to the unresolved issues around the country’s constitutional name (BBC, 2014). This led to Macedonia taking the issue of its name to the International Court of Justice in The Hague and after three years, the court ruled that Greece was wrong to block Macedonia’s entrance into NATO because of the country’s name (BBC, 2014). These and other disputes with its neighbours, and especially with Greece, have proved to be obstacles on Macedonia’s path towards macroeconomic stability, development and growth; these elements will be discussed in the following sections.

Therefore, this chapter is organised as follows: section 3.2 reflects on the political developments of the country before and after its independence and. Section 3.3 reflects on the economic developments in the country, similarly section 3.4 places emphasis on the socio-cultural background of the context. Section 3.5 discusses the importance of the Greek capital and the Greek crisis to the Macedonian economy, as well as defines the concept of small, open and transition economy and presents the Macedonian small, open and transition economy similarly, section. Finally, this chapter summarises its closing arguments in section 3.6.

3.2 POLITICAL HISTORY

In order to understand the process of transition of Macedonia's economic system, we need to understand the political history of the Macedonian nation. In particular, the modern developments along with two critical socio-political transitions, the transition of Macedonian society as part of Yugoslavia as a strong pluralist Federation and the transition of Macedonia as part of Yugoslavia with an increased level of autonomy to the republics and provinces.

MACEDONIA AS PART OF YUGOSLAVIA

The first transition in Macedonian society as part of Yugoslavia was from an underdeveloped capitalist system (after WWII) to a communist society. This also encompassed the movement from political pluralism (in which human rights were limited and the national identity of the Macedonian people was neglected) towards a single-party system (which supported the Communist ideology and recognised the Macedonian national identity) (Ackoska, 2006). However, this intended movement from underdeveloped capitalism to communism was not achieved according to Anceva (2009) due to the absence of 'essential conditions' (economic, political and cultural) which were considered necessary for the development of a 'more sophisticated social system'. Instead, Yugoslavia moved from a governance of the 'working class' to the development of a one-party system in which the chief governing power was held by the official and executive organs of the communist party (Ackoska, 2006).

The second key transition began in the 1960s and was characterised by the passage of a new constitution which appeared to give more power to the Republics and expanded their rights and powers. However, in reality, this constitution continued to support the centralisation of power in the Yugoslav federation (Ackoska, 1992). Considering the unstable economic developments and the fear of the smaller republics of the dominance of the greater ones, the Yugoslav Federation was in a state of continuous tensions. These tensions, more specifically resulted in identity issues in the Macedonian case, where the Macedonian people were still seeking to preserve their identity which was ‘attached’ to the Serbian Kingdom after the Balkan wars (Anceva, 2009). These turbulent internal relations and the economic issues in the federation generated the changes in the Constitution in 1974 and brought new reforms which meant the Republics were considered as national states and the provinces as ‘constitutional elements of the federation’ (Ackoska, 1992; 2006). This constitution led to a loss of power by the Federation and an increased level of autonomy of the provinces (Kosovo and Vojvodina), supported by Slovenia and Croatia, who were keen to separate from the Federation (Ackoska, 2006).

These developments, the significant increase of Serbian nationalism and the death of Tito in 1980 accelerated the disintegration process of Yugoslavia. The industrial crisis leading to high unemployment, and the sharp contrast in levels of development between the north and south of the country brought this separation process to its final stage and the idea for the formation of a plural political system emerged in the 1990s (Risteski and Trpkova, 2012). Even though President Milosevic’s intention was to maintain the strong bonds of unity in the federation,

Macedonia (along with Slovenia and Croatia) decided to separate from the federation in 1991. The first Macedonian parliamentary elections and the formation of its first parliament were announced (Kovacevic and Dajic, 1994; Mastilica, 1990).

MACEDONIA'S INDEPENDENCE

The independence and sovereignty of Macedonia were established by a declaration which was confirmed in a national referendum in September 1991 (Bacanovic and Jovanova, 2011). This phase of modern Macedonian history begins with Macedonian independence and the election of the first Macedonian President Kiro Gligorov, the formation of the parliament in 1991 and the formation of the first Macedonian government led by Nikola Kljusev in the same year (Ackoska, 2006; Gligorov, 2002). The Committee of the Arbitration Commission of the Conference on Yugoslavia led by the then committee president Robert Badinter, in 1992 issued a report which gave positive comments about Slovenia's and Macedonia's independence. Suggestion was made that the two countries should be recognised, stating that the name of Macedonia 'does not indicate any territorial pretensions towards Greece' (Ackoska, 2006; Donev, 2013). However, the final decision of the EU recognised Slovenia and Macedonia under the temporary reference 'FYROM' (Former Yugoslav Republic of Macedonia).

The recognition of Macedonia as an independent nation was followed by the Greek economic blockade in 1995, which was itself already a member of both the EU and NATO and fully integrated into the international community (Soros, 1995).

Arguing that Macedonia as a small and weak country had been using ‘irredentist actions and symbols’ and was a threat to the Greek integrity (MIT, 1994; Soros, 1995), Greece justified its adverse economic action. The UN sanctions enforced on Serbia and Montenegro in the period 1992-1995 due to the concerning situation in Yugoslavia, in particular, the fighting in Bosnia-Herzegovina, demanded that all parties should end the fighting and respect the ceasefire signed on 12 April 1992. Following these events, the Macedonian economy suffered severely from the enforcement of sanctions (losing 60% of its traditional markets) as well as facing the Greek embargo in 1995 (Bartlett, 2009; Sekulovska-Gaber, 1996). Opinions varied as to the reason for the embargo. According to official government accounts, the main aim of the embargo was to force Gligorov to agree officially to change the country’s name as well as to draw the attention of foreign governments towards the importance of this issue (Zahariadis, 1996). The impact of the embargo was severe: access to the Greek market and the port of Thessaloniki was blocked and the railway connection which runs north-south was stopped depriving the country’s heavy industrial sectors of access to markets (Sekulovska-Gaber, 1996; Soros, 1995). This deepened the already existing economic crisis in Macedonia and also endangered its political stability (Donev, 2013; Soros, 1995). Considering the ethnic instabilities that lived in Macedonia, there was a fear that if Macedonia, because of these sanctions and blockades, stagnates economically and politically, this might lead to the third Balkan war (Soros, 1995; Sekulovska-Gaber, 1996).

The Albanian - Muslim minority issue of the Yugoslav region was present during the existence of the Yugoslav federation, but even more after the dissolution in small

independent countries. The idea of Big Albania and the consolidation of the regions with majority Muslim population⁹ became even more prevalent after the dissolution of Yugoslavia. The political uncertainty, high unemployment and social misery of the population and especially of the Albanian – Muslims are some of the issues which led to this multi-ethnic intolerance in the ex-Yugoslav republics and Macedonia. In the wake of the Kosovo war in 1999, an estimated 360,000 Albanians – Muslims left Kosovo and took refuge in Macedonia, which in turn posed economic difficulties and a decline in economic living standards for the Macedonian population (Salehyan and Gleditsch, 2006). The continuing instability on its border and the sizeable refugee population both led to the ethnic conflict which later on occurred in Macedonia.

In the late 2000 small groups of Albanians -Muslims started opening fire on Macedonian security forces. The ethnic conflict began at the beginning of 2001 when a group of armed Albanians -Muslims opened fire on a police station in a village near the border of Macedonia and Kosovo (Kirkova, 2004; Veljkovic and Milosevic, 1999). Albanian - Muslims from both sides of the border (from Kosovo and Macedonia) later took up arms to pursue the independence of the Albanian-populated regions and villages forming the National Liberation Army (Salehyan and Gleditsch, 2006). Initially, this conflict was accepted by the international public as nothing but a terrorist act and the government in Macedonia was left to address the matter. However, the country's political and military weakness delayed the resolution of the conflict (Ackoska, 2006). The armed invasion was ultimately finalised by the signing

⁹ Part of Montenegro, Kosovo, Macedonia, Serbia and Greece to Albania with Albanian - Muslim majority

of the Ohrid Agreement¹⁰ (Kostova, 2002; Veljkovic, 2001). The agreement denied the principles upon which the Macedonian country was formed in 1944, but supported multi-ethnic relations and multicultural coexistence, explicitly retaining the right of the Macedonian people to be equal to other nations in the Balkans (Karakamisheva, 2004; Kostova, 2002). The Agreement altered the official languages of the country, with any language spoken by over 20% of the population becoming co-official with the Macedonian language on a municipal level, undermining further the already vulnerable Macedonian identity.

In spite of all these difficulties, based on the international rankings of business climate and investment reform, Macedonia has demonstrated progress considering the ease of doing business. It is one of the top ten overall reformers in 2010 and ranks 32 out of 183 in the world for ease of doing business (World Bank 2009). Pettifer (2010) asserts that today in Macedonia a belief exists that outside factors have often manipulated the stability of Macedonia's democracy. This belief can be related to the government's intention to reduce its dependence on the IMF. A political decision has been made to seek financial aid rather from the European Bank for Reconstruction and Development, which has funded infrastructure and road improvements. Moreover, financial remittances are at reasonably high levels mostly from Albanian Muslims, who work in German-speaking countries (Pettifer, 2010).

On the negative side, the extent of corruption and revenue from criminal activities and the opaque way that business in the country is conducted, are considered to be

¹⁰ 13.8.2001 in Ohrid, Macedonia

detrimental to attracting new foreign direct investments (FDI) (Su, Castel-Branco and Mitev, 2012). Moreover, the current Macedonian government, which has been in power since 2006, has used populist ethnic-nationalist politics as a method to 'face threats of cultural marginalisation by its neighbours. This, in turn, has been seen as a strategy to 'bolster its claim on an autochthonous regional identity' (Eaton, 2011; Fuere, 2014). Another populist project undertaken by the government is 'Skopje 2014', a four-year project which is perceived as 'a massive archaeological campaign' to connect the current Macedonian population with the ancient history of the peoples living in the region (Eaton, 2011; Karameti, 2014). Finally, the government has been heavily criticised by international institutions for 'growing restrictions on independent journalism', increasing levels of corruption, weakened democracy, 'worsened inter-ethnic relations', institutional nationalism, and a lack of transparency in the use of public money. All of which have led to the view that Macedonia is a regime that falls into the category of 'transitional/hybrid regimes' (Karameti, 2014).

THE MACEDONIAN QUESTION

Although Macedonia is today a sovereign state, its people have endured centuries of oppression and have struggled for their independence. Frequently, this struggle was waged against its near neighbour Greece. Historically there has always been a connection between Skopje and Thessaloniki as part of the Thessaloniki-Belgrade trade route before and after the world wars up to the dissolution of Yugoslavia. During the end of the 80s and beginning of the 90s trade relations have been improving and led to the signing of the Interim Agreement and the opening of Liaison

Office in the two capitals in 1995 (Labrianidis and Kalantaridis, 2004; Tsaradanidis and Karafotakis, 2000).

The issue around who has legal rights to control the Macedonian territory and people ('The Macedonian Question') has been analysed for a century. Initially during the period of the Ottoman Empire, the population of Macedonia was very ethnically diverse¹¹ (Danforth, 1995; Triandafillidou, Calloni and Mikrakis, 1997). As the Ottomans maintained the division of the population based on religious identity, the Macedonian population was perceived from external perspectives as consisting of Greeks, Bulgarians or Serbs (Danforth, 1995). All the nations that inhabited the area now comprising Macedonia shared a single objective: the overthrow of the Ottoman regime and its influence in the Balkans (Pettifer, 1992).

After the Balkan wars (1912-1913) the territory of Macedonia was divided with the agreement of Bucharest and the future of a vast number of Slavic-speaking people significantly changed as they became a part of Bulgarian Macedonia (Pirin), Greek Macedonia (Aegean) and Yugoslav Macedonia (Vardar) (Danforth, 1995). This division was followed by the implementation of policies focused on the assimilation of the Macedonian minority in the prevailing culture in each territory¹². An especially forced assimilation was undertaken by the Bulgarian and Greek governments including the Hellenisation of people's names, destroying Slavic literacy by

¹¹ Including Slavic and Greek Christians, Turkish and Albanian Muslims, Vlachs, Jews and Gypsies

¹² Bulgarian assimilation in Pirin Macedonia, Greek in Aegean Macedonia and Yugoslav assimilation in Vardar Macedonia

forbidding the use of the Macedonian language, and forced migration¹³ (Agnew, 2007; Danforth, 1995; Kofos, 1989; Pettifer, 1992).

The Greek nationalist view of Macedonia questions these three issues: the existence of the Macedonian nation, of the Macedonian language and the Macedonian minority in Greece (Danforth, 1995). Danforth (1995) highlights that an, even more, extreme Greek nationalist perspective holds that a Macedonian independent state never existed and that the language spoken in ancient Macedonia was Greek. Finally, that there had never been a Macedonian nation and language Tito named a ‘mosaic of nationalities’ (which use a dialect of the Bulgarian language) by using the Greek name Macedonia (Danforth, 1995). However, this perspective does not explain the existence of a language that is spoken by the Macedonian minority in Northern Greece, which is the same as the one spoken in Macedonia. The Greek government does not accept the existence of a Macedonian minority in Greece, but labels such people as ‘Slavophone Helens’ who are bilingual Greek people and speak a ‘local Slavic dialect’ and have a ‘Greek national consciousness’ (Kofos, 1989:226). The Macedonian language is not similar to Greek or Albanian; it is of a Slavic origin (Lunt, 1959). Linguists argue that the Macedonian Slavic dialects are mixed from the beginning and each following mixture indicated the changing domination of Bulgarian and Serbian rulers in the regions in the period of the Balkan wars (Lunt, 1959). According to Lunt (1959), the Macedonian language shares phonetic elements

¹³ Similar movements of people were common in the Balkans: Greece-Bulgaria and Greece-Turkey in 1920s; Greek Civil War 1946

with the Serbian language and morphological similarities with the Bulgarian language, but it is a separate language.

The ‘global cultural war’ that these two countries have been fighting has been raised to the highest level of international diplomacy. Macedonia is the first nation to be denied the right to use its national symbols and name in order not to offend the feelings of another country (Danforth, 1995; Featherstone, 1990). Considering the Greek position, naming represents a ‘powerful social practice’ indicating heritage, bringing into existence a genetic continuity for the Greek people (Agnew, 2007; Bourdieu, 1991; Triandafyllidou *et al.*, 1997). Thus, to a Greek nationalist even using the name ‘Macedonia’ is an ‘act of plagiarism’ and a falsification of Greek history and culture (Kofos, 1989: 226). In spite of the fact that the dispute over Macedonia’s name, flag and national symbol was recently ‘resolved’ diplomatically, since its independence the country has been recognised and accepted by international organisations as FYROM, thus making explicit the continuing relevance of the ‘Macedonian question’.

The complexity around this issue, which is tangled up with political, cultural and geographical claims, can be recognised in the positioning of both countries. On one hand, the Greek government argues that the northern part of the country (with its capital in Thessaloniki) represents an indispensable part of Greece and is inhabited by people who define themselves as Greeks. Thus, the entire cultural heritage associated with Alexander the Great are a part of it (Christides, 1949; Martis, 1984). On the other hand, the Macedonian government argues that Alexander the Great was an ancient Macedonian (he was neither Greek nor Bulgarian in the modern sense since he fought

the Greek city-states such as Sparta, Athens and Patra). Nevertheless, all of the parts of the geographical region of ancient Macedonia have the same right to lay claim to that cultural heritage without a veto for the use of symbols or name (Triandafyllidou *et al.*, 1997).

Since Macedonia's independence, both countries have co-operated in various areas such as transport, customs, police, and cultural programmes and, most importantly for this research, economically through trade and FDI. The identification of Macedonia as 'Skopje' and its population as 'Skopjeans' by the Greek media, the representation of Greece as a 'brotherless nation' and the disjoint of the Greek argument based on historical issues but implying security concerns by its neighbours, have all been obstacles to achieving a rapprochement between the two countries (Demertzis, Papathanassopoulos and Armenakis, 1999; Zahariadis, 1996).

MACEDONIA AND THE EUROPEAN UNION (EU)

Since 1991 and the beginning of its transition, one of the major changes which had significant repercussions in Macedonia was the movement towards a market economy (Ackoska, 2006). Throughout this process and in spite of the travails outlined in the earlier sections, Macedonia never strayed from its commitment to join the EU. A year after its independence, although still not a member of the EU, Macedonia assigned its representative to Brussels and by 1995, it had established diplomatic relations with the EU. In 1994, Macedonia entered the EU stabilisation and development programme which, amongst other things supported the market reforms that needed to take place in Macedonia. According to the National Development

Strategy report (1997), the benefits of this programme were the stabilisation of the domestic currency and achieving stable inflation rate at 5%. However, during the 18-month Greek embargo (February 1994 – October 1995), access to the Greek market was blocked, as was access to port Salonika (Thessaloniki) which was one of the most important trade routes for Macedonia to other markets (Sekulovska-Gaber, 1996). The European Commission filed an action against Greece in the International Court of Justice (22 April 1994), stating that the trade embargo imposed on Macedonia was in violation of European Community commercial policy (Highet, Kahale and Peters, 1995; Hoyle, 2001).

In 1997, the EU opened its permanent bureau of the European Commission in Skopje, which was an upgrade to the office of the Delegation of the European Commission in 2000 (Donev, 2013, Dzurovski, 2009). The establishment of an EU office in Macedonia signified the will of the EU to recognise Macedonia in spite of the political obstacles. Moreover, this brought funding which supported the design of international assistance projects focusing on the preparation for a potential accession of the economies from the Balkans (Bartlett, 2013). By 2004, 130 countries had recognised Macedonia under its constitutional name.

In 1999, the EU introduced the phrase ‘West Balkans’ (encompassing Albania, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro), under the Agreement for Stabilisation and Association (Bartlett and Samardzija, 2000). The EU announced its intention to integrate these states into the Union of these countries to underpin the stabilisation of south-eastern Europe (Bartlett and Samardzija, 2000; Donev, 2013). In 2001, Macedonia was the first of the ‘West Balkan’ countries to sign an

Agreement of Stabilisation and Association with the EU. In order to speed along the process of integration, in 2004, the Macedonian parliament passed the ‘Declaration for Submitting the Membership Application for the EU’ (Donev, 2013; Dzurovski, 2009). After a detailed analysis of the progress reports that Macedonia introduced in 2005, the European Council awarded Macedonia the status of candidate for membership of the EU (joining Turkey and Croatia, who were also waiting) (Donev, 2013; Dzurovski, 2009). In 2008, Macedonia gained visa liberalisation based on the progress that the country had demonstrated in the departments of justice, freedom and security. Finally, in 2010 (and also confirmed in 2011 and 2012), the EU Council agreed with the European Commission (2013) that Macedonia satisfied the political criteria laid down and the Commission recommended the opening of negotiations for membership (Donev, 2013).

According to the EU decision for enlargement in 2010, Macedonia was supposed to be given a definite indication (Dzordzeska, 2011). However as argued in the literature, ‘the mythological project Skopje 2014’, the governmental politics of ‘strengthening the Macedonian identity’ and the ‘stalemate of finding a solution to the name issue’ are the main drawbacks to the country’s integration (Dzordzeska, 2011). Today, Macedonia as part of the ‘West Balkan’ countries is still in the membership queue (Vachudova, 2013). The EU considers these countries to offer primarily geopolitical benefits to the Union, rather than economic advantages; due to their position on the Union’s south-eastern border and close to Russia these states face severe security risks but have low economic potential (Vachudova, 2013).

In spite of the geopolitical turbulence that has been evident since the country's independence, Macedonia's has never wavered from its goal to integrate into the EU. Based on research from the Institute for Democracy, Solidarity and Civil Society undertaken in 2006, 83% of the Macedonian population support the intention of their country to join the EU (Donev, 2013; Risteski and Trpkova, 2012). This matches research of other international bodies which shows that the percentage of support up to and including 2011 was within the range of 83%-97% support (Donev, 2013).

3.3 ECONOMIC BACKGROUND

In order to provide a full understanding of the economic situation in Macedonia, it is necessary not to limit this section to the period after the country's independence but to go further back and to consider the decades during which the country was a part of the Yugoslav Federation.

MACEDONIA AS PART OF YUGOSLAVIA

After WWII, Yugoslavia came under the control of the 'victorious communist partisan leader Tito' who developed a new central planning model similar in outline to that following in the Soviet Union¹⁴. However, there were some significant differences that emerged during a series of major reforms undertaken in the period from 1948 to 1980 (Estrin, 1991). The Yugoslav economy was significantly different

¹⁴ Based on a system of state ownership of the means of production, collective farming, industrial manufacturing and centralized administrative planning, characterised by state control of investment, public ownership of industrial assets, macroeconomic stability, negligible unemployment and high job security.

from the Soviet Union and other Eastern European socialist states especially after the Yugoslav-Soviet break-up of 1948.

One of the most significant development programmes for the country was introduced in 1952 through the introduction of direct horizontal relationships among enterprises through a regulated market rather than top to bottom command planning typical of the communist system (Estrin, 1991). These reforms included price liberalisation, exposure to international trade, the introduction of exchange rates with tariffs (since the dinar was never freely convertible), and the development of a commercial legal code (Estrin, 1991). However, these changes did nothing to diminish the power of the central government. Considerable control of the economy was maintained and investment funds were allocated centrally (increasing the value of investment) and funded by taxation of salaries (Estrin, 1991). The Yugoslavian planned economy was based on central economic planning and bureaucratic control, which administered most of the functions that are provided by the market economy (Child, 1990; Ericson, 1991). Thus, the various categories of market and planned prices were replaced by a single price structure, regulated by the market (Horvat, 1971). Moreover, the exchange rate was made more realistic by devaluing the national currency six times (Horvat, 1971). Therefore, it was recognised that the fundamental foundations of socialism entailed individual freedom and autonomy of self-governing collectives (Horvat, 1971). The Yugoslav Federation considered that employees should be given the key role in the decision-making of the enterprises, even though evidence indicates that workers were involved in welfare, wage and employment

decisions, the majority of decisions were taken by managers who were also party members (Lydall, 1984).

Another significant period of reforms began in 1965 and constituted mostly pro-market reforms¹⁵ (Estrin, 1991). This emergence of the capital market was concentrated and regulated by the ten major banks which allocated credits while interest rates were kept low and determined centrally (Dmitrijevic and Macesich, 1973). These reforms increased the openness of the economy and liberalised the price system (Dmitrijevic and Macesich, 1973). This was the movement from a planned economy to self-governing socialism. However, in the period after the 1970s the key critical communist thinkers (League of Communists) in Yugoslavia, perceived the market reforms as inefficient and were taking the economy in the direction of turbulence and instability characterised by ‘sharp trade cycles, unemployment and pay inequality’. It was argued that self-management was ineffective and managers ‘were usurping decision-making authorities’ (Estrin, 1991).

The reforms undertaken in this period focused on the political orientation of the development process and the strengthening of self-management by breaking up enterprises into smaller units (Estrin, 1991). Companies that operated in Yugoslavia were significantly different from their counterparts in other western countries. These firms were state-owned, with a limited allocation of resources and lack of confidence to compete in a market economy (Peng and Heath, 1996; Peng, 1994). Thus, the state-owned businesses received orders from the planning regime. This, together with the

¹⁵ Emerging capital market, centrally determined low interest rates, openness of the economy, liberalisation of prices, enhanced decision making authority of firm and the decentralisation of investment funds from the state to the socially owned banks.

soft budget constraints and the fact that the government could write off the enterprise's debt, meant that the organisation did not face the discipline of profitability and performance that it would have done in a market economy (Child, 1990; Kornai, 1980; Peng and Heath, 1996). Therefore, these constraints that existed in the pre-transition period aimed to control the economic organisations and through them the political and party ideology to control the individuals and firms (Shenkar and Von Glinow, 1994). As with other planned economies, Yugoslavia was a highly bureaucratised economy in which the government defined relationships among economic actors and there was no need for formal laws (Ericson, 1991). Another constraint of such planned economies was the absence of property rights or a legal framework for their enforcement which assists the normal functioning of the market economy (Clarke, 1991). The lack of a legal framework, when accompanied by the political uncertainty in planned economies, decreased the confidence of the business community and undermined investments from within and outside Yugoslavia (Beamish and Spiess, 1991; Puffer, 1994).

After Tito's death, policy-making was devolved to the level of the republics and any significant economic action required the agreement of all six republics (Estrin, 1991). This was a period of severe economic pressure which made the process of effective policy-making difficult, given the tension between the more liberal, Western-oriented republics of the north and the Balkan national communist leaders in the less developed South (Estrin, 1991). This is what led to the economic disintegration of the unified Yugoslav economy. The transition period from a planned economy to a market economy weakened the constraints of the planning regime to

facilitate economic exchange: enterprises were granted greater autonomy and the number of privately ownership enterprises increased (Naughton, 1994; North, 1990).

MACEDONIA'S INDEPENDENCE

With the new constitution (November 1991) the effects of socialist planning in Macedonia (and inherited from Yugoslavia) did not disappear. Due to the 'distributed elements of vertically integrated production processes', Macedonia's economy is more dominated by industrial production (47% of GDP) relative to the service sector and construction than other Western economies, (Micevska, Eftimoski and Mircevska, 2002). Within the Yugoslav Federation, each republic specialised and the central industrial production in Macedonia consisted of energy-intensive manufacturing including iron and steel, labour-intensive production (light industries such as textile, food processing), and the generation and distribution of electricity production (Micevska *et al.*, 2002). This left Macedonia in a strong position to meet its basic food needs but left it facing limitations concerning gas, oil and modern machinery (Micevska *et al.*, 2002).

The country also faced significant cultural challenges inherited from the era of labour-managed firms whose employees continued to demand high wages. Due to the large degree of freedom of workers and their worker collectives, companies maximised workers' income rather than have surpluses. This led to the operation of the state-owned enterprises without profit and making significant losses. Since after Yugoslavia's dissolution, the firms needed to operate within a competitive market with significantly lower demand and maintained supply, this meant a change of the

old habits (Bartlett, 2009). The companies needed to focus on functioning efficiently to be competitive in the market. In order to do so, the enterprises required to cut costs to be competitive for the significantly smaller and much more competitive markets¹⁶. Therefore, enterprises cut on labour costs; thus increasing the unemployment rate significantly to 20%. This left the economy vulnerable and the relatively high wage related to higher prices, together with the high unemployment rate, resulted in 608.4% inflation rate (Micevska *et al.*, 2002).

Although it had been one of the poorest republics in the Social Federal Republic of Yugoslavia (SFRY) after its independence the Macedonian output had declined further (Mastilica, 1990). In Macedonia, the transitional phase, unfortunately, coincided with unstable conditions caused by the war in Croatia and Bosnia-Herzegovina, the UN sanctions against the Socialist Republic of Yugoslavia and the Greek Economic blockade. Thus, Macedonia faced barriers in reaching potential trade markets (Bacanovic and Jovanova, 2011; Ruzin, 1999). These factors led to an expansion in the size of the informal economy which made up 30% of the whole, compared with a rate of more like 10% in other countries (Ruzin, 1999). There were other disturbing indicators in the statistical data from the end of 1996 when political turbulences started to normalise. The economy was characterised by a trade deficit of \$700m, no significant investment (around \$9m), an unemployment rate of 32% (from 26% in 1990) and a decrease in the GNP to \$644.2 (from \$1197 in 1989) (Ruzin, 1999). The de-nationalisation of the initially redistributed wealth during the

¹⁶ Due to the dissolution of Yugoslavia, Macedonia was left to satisfy the demand of a significantly smaller Yugoslav market than before and of much harsher competitiveness in European markets

socialist regime in Yugoslavia¹⁷, the corrupted privatisation of public capital and the new nationalisation of people's property in the period after 1997, led to the destruction of the foundations of the national economy (Ackoska, 2006).

Beside these measurable obstacles, a number of other unmeasurable difficulties occurred which were typical for most post-communist transitional countries. Citizens were unfamiliar how a capitalist economy operates, leaving the system vulnerable to fraud and corruption, which undermined the confidence of the international financial institutions (IFI) (Ruzin, 1999). One of the biggest public scandals in 1997 was the affair of the building house 'TAT' which had offered interest rates of up to 5-6% monthly to its depositors (Lepavcov, 2005). This was a classic pyramid-selling scheme, from which with the help of the public praise, public officials made a profit at the expense of ordinary citizens who lost over \$70m (Lepavcov, 2005). The operations of the savings accounts were suspended, its assets and liabilities were frozen and 'TAT' was placed under bankruptcy proceedings (IMF, 1997/37: 1).

The movement towards a new economic system from 1990 onwards did not appear as a planned process, but as a type of social makeover and during the period many surprises, dilemmas and obstacles emerged. By the time the economy stabilised (around 1997-1998), the ethnic conflict in 2001 where ethnic Albanian – Muslims had formed terrorist groups and attacked the Macedonian army forces (which escalated from Kosovo in 1999), destabilised the economy again (Bacanovic and Jovanova, 2011; Mastilica, 1990; Nordyke and Peabody, 2002). However, considering that the

¹⁷ The returning of property to the people after having been taken from them

transition of the Macedonian economy is still in process, it must be highlighted that the road towards the establishment of a functional democracy and a flourishing market economy is a long one and Macedonia is not alone in facing these difficulties. The journey cannot be considered complete until certain fundamental rules and regulations are respected (Bacanovic and Jovanova, 2011). As argued by Taki Fiti, a leading Macedonian economist, 20 years after the beginning of the period of transition the country's GDP is still less than it was before the transition (Arnaudovski, 2007). This suggests that the transition can be seen as a negative process, creating chaos in some areas, destroying the middle class, and resulting in material and cultural poverty and a protracted decline in some of the key requirements of a civilised society (Arnaudovski, 2007; Mitrevska, 2008; Veljković, 2001).

INHERITED MONETARY VULNERABILITIES

An economy moving from communism to a market structure faces particular problems with its monetary system and Macedonia was no exception. The collapse of the Yugoslavian economic system, the shrinkage of the market, the decrease in demand and huge supply, the inaccessibility to other traditional markets, are some factors that decreased the productivity of manufacturing companies (Barker, 2009). As Macedonia was part of Yugoslavia, the country inherited the legacies of the Yugoslavian banking system.

Yugoslavia, since the 1950s had a two-tier banking system comprised of the National Bank of Yugoslavia and individual commercial banks which were owned collectively according to the self-management system in Yugoslavia (Bonin, Hasan

and Wachtel, 2003). Thus, each of the ex-Yugoslav republics had only one main bank. However, this changed after the 1970s when domestic banks were established. This led to the creation of smaller inefficient and undercapitalised banks. Toward the end of the 1980s, these banks along with the major bank in each of the Republics weakened, especially during the Yugoslav succession and the freeze of the foreign currency reserves (Bonin *et al.*, 2003). Due to this event, the major banks were significantly weakened, since there was a mismatch between the foreign currency loans and the foreign currency reserves. This led to the need for a rehabilitation of the Macedonian banking system, which resulted in the nationalisation of the banks and creating government owned banks by the beginning of the 1990s (Keren and Ofer, 2002).

Once the banking system was rehabilitated, companies began borrowing credits from banks which surpassed the banks' available funds. The Macedonian National Bank implemented a monetary policy by becoming a lender-of-first resort, increased the budget deficit to stabilise the economy (Perotti 1994). However, this monetary policy led to unfavourable real interest rates, hyperinflation and depreciation of the local currency (Perotti, 1994). The government implemented 'credit ceilings', (limited the supply of money) the borrowing rate was increased above the inflation rate and the local currency was pegged to the German Deutsch-mark (Perotti 1994). As a large part of the loans of the more prominent and powerful banks were non-performing, the government undertook recapitalisation of the non-performing loans and replaced them with government bonds (Brix, Ghanem and Islam, 1999). The intention was to impose a limitation on the banking sector's lending operations and increase the

requirements for the minimum equity capital for the entry of new banks for monetary stability to be achieved in the economy (Brixi *et al.*, 1999: 20). This led to a lack of confidence in the Macedonian currency, demonstrated through the withdrawal of the short-term deposits due to the instability of the Macedonian banking system (the hyperinflation, the collapse of the pyramid savings institution TAT and the lost deposits in the banks of Yugoslavia) (Stiglitz, 1992). Therefore, a stabilisation method of the foreign exchange rates was implemented to bring stable inflation rates (Minassian, 2002). Macedonia implemented a softer approach in stabilising the foreign exchange rate and after pegging its currency with the Deutsch-mark and devaluation against the USD, managed to increase exports (Brada and Kutan, 1999; Minassian, 2002).

THE IMF'S INTERVENTION IN MACEDONIA

According to the Fund's official website the institution's primary role is to strengthen the economic institutions in a country, by promoting greater economic and financial stability, allowing more effective market discipline, setting the 'reform agenda' and enhancing transparency (IMF, no date). The institution provides three types of services to client-countries: surveillance work, lending duties and technical assistance (IMF, no date).

Macedonia became a member of the IMF in December 1992 and repaid its outstanding debt to the IMF in 2008 since when the IMF's duties in Macedonia have been limited to surveillance and monitoring (IMF, 1993/16: 1; IMF, 2012). Through this surveillance work, the IMF exchanges view with the Macedonian government and

central bank. Moreover, it provides adjustments to economic and financial policies to avoid risks of a domestic or global nature. Finally, it suggests policies that mainly focus on macroeconomic, fiscal and financial issues. The surveillance work undertaken in Macedonia focused on bilateral surveillance, appraisal and advice on the policies implemented in the country. The surveillance documents focus on three major aspects as part of the Article IV consultation process (IMF, no date). Finally, the authorities analyse the proposed programme of measures and together with the IMF staff find a way to finance the implementation of these suggested measures leading to the lending duties of the IMF (IMF, no date).

The lending role played by the IMF especially during the period 1992-2008 focused on finding sufficient financing on reasonable conditions, making the adjustment policies and reforms easier and enabling the client-country to correct its balance of payments and restore the conditions for economic growth (IMF, 2012). Some of the lending instruments provided carry an interest rate surcharge while others do not; low-income countries can use the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF) which do not carry interest rates. On the other hand, the Standby Agreements (SBA), the Flexible Credit Line (FLL), and the Extended Fund Facility are used for medium to long term financing and carry interest rates (IMF, 2012). Chronologically as presented in Table 3.1 below, Macedonia signed up for few financial lending arrangements with the IMF. Starting from 1995, Macedonia undersigned three Stand-By Agreements, two Extended Credit Facilities, one Extended Fund Facility and a recent Precautionary Liquidity Line (IMF, 2012). As all of these lending arrangements require client countries to observe

specific terms to be eligible to receive a disbursement, reports were issued accordingly for every financial agreement requested. After the analysis of the executive board of the IMF a written decision was released which highlighted whether these lending agreements were approved to support Macedonia's adjustment programme.

Finally, the IMF's technical assistance in Macedonia was provided through advice about establishing new institutions, legal frameworks and macroeconomic policies that promote economic growth maintain stability in the financial sector and the exchange rate system and manage the expenditures of the Macedonian economy. The importance of this technical assistance is shown throughout the annual staff reports issued by the IMF about Macedonia that is analysed in more detail in Chapter 7.

Table 3.1: IMF's lending agreement

Facility	Date of Arrangement	Date of Expiration or Cancellation	Amount Agreed	Amount Drawn	Amount Outstanding
Precautionary and Liquidity Line ^{1/}	Jan 19, 2011	Jan 18, 2013	413,400	197,000	197,000
Standby Arrangement	Aug 31, 2005	Aug 30, 2008	51,675	10,500	0
Standby Arrangement	Apr 30, 2003	Aug 15, 2004	20,000	20,000	0
Extended Credit Facility	Dec 18, 2000	Nov 22, 2001	10,335	1,723	0
Extended Fund Facility	Nov 29, 2000	Nov 22, 2001	24,115	1,148	0
Extended Credit Facility	Apr 11, 1997	Apr 10, 2000	54,580	27,281	0
Standby Arrangement	May 05, 1995	Jun 04, 1998	22,300	22,300	0
Total			596,385	279,952	197,000

3.4 SOCIO- CULTURAL CIRCUMSTANCES

The preceding sections have explored the economic and political conditions of the Macedonian economy as the country began to make its transition from socialism to

capitalism. Here I move on to consider the socio-cultural background against which these developments took place.

One of the major socio-cultural issues that Macedonia was faced with on its independence was the high unemployment rate which later increased as a result of the shrinkage in the agricultural workforce, the process of privatisation and the liquidation of loss-making enterprises (Ruzin, 1999). The vast number of redundancies through the privatisation of the state-owned companies (around 60% of the working population) left huge numbers of unemployed people who were not absorbed by the market economy (Ruzin, 1999). Another explanation for the high unemployment rate was the shrinkage of the market during the period of the war in Yugoslavia and as a result of the Greek trade embargo.

The breakdown of the socialist system brought challenges in all areas of national life, since moving towards a democratic country with a market economy demanded the establishment of a new political, legal, economic and social framework (Bacanovic and Jovanova, 2011). These changes in the social welfare system along with the shifts in the economic structure of the country led to a significant decline in the household income (by 40%) and a rise in the proportion of households receiving social benefits (to around 10%) (Ruzin, 1999). Moreover, as the privatisation model selected by the government ran out of control, it evolved into a predatory form of capitalism, with criminal elements creating a new class in society that became richer and powerful almost overnight (Ignjatovic, 2012). As Bartlett and Samardzija (2000) explain, the extensive privatisation programmes implemented in Macedonia were not accompanied by the appropriate measures for a competitive market environment.

Thus, through the process of privatisation ‘politically connected tycoons’, acquired ‘quasi-monopoly’ positions (Bartlett and Samardzija, 2000). Through these processes the middle class disappeared while 100.000 citizens moved into informal or even illegal employment, and, 75.000 families needed social benefits to survive (at the low rate of 50-80 euros per month) (Bacanovic and Jovanova, 2011). Even though the conditions in the labour market in Macedonia were better at the end of 2008 and the level of unemployment had fallen, in the aftermath of the global economic crisis the unemployment rate has risen again (in 2008 It was 33.8%) (Gerovska - Mitev, 2009). It is now at a higher rate than during the period of civil strife in 2001 (in 2001 was 30.5% and in 2002 was 31.7%) (Gerovska – Mitev, 2009).

The transition period in Macedonia also unleashed ethnic and cultural tensions. Due to Muslim immigration from Kosovo (following on from the Yugoslav war and the Kosovo crisis), Macedonians were faced with an increase in population Muslim minority (Bartlett and Samardzija, 2000). Radical Albanian nationalist groups grew in strength and expressed hostility towards the immigrated Kosovans and the Christian community in Macedonia, resulting in ethnic conflict in 2001 (Micevska *et al.*, 2002).

So as a consequence of the collapse of socialism and the introduction of a market economy, the social and security systems were severely destabilised. Budgetary constraints combined with an increase in the number of people dependent on welfare benefits and the high unemployment rate created an enormous social burden (Ruzin, 1999). This inadequate movement towards a market economy, the inconsistent increase in capital inflow and employment, the inefficient union, the absent evolution in the education and welfare system, are some of the post- Yugoslav problems. The

combination of harsh political and socio-economic conditions when combined with these social conflicts, ensure that any act of social development of Macedonia is condemned to failure (Ruzin, 1999).

3.5 MACEDONIA AS A SMALL OPEN ECONOMY

Before getting deeper into the economic analysis of the effect of economic reforms on economic growth, it is important to define what is meant by small, open economy (SOE). In various academic articles Macedonia has been referred to as both an emerging market and a small open economy, thus my intention is to distinguish between these two concepts. The concept of ‘emerging economy’ refers to any country that is demonstrating positive per capita income growth (Bigsten and Danielsson, 1999). However, this term is not specific enough, does not consider the size of the economy and is less useful than the concept of SOE.

Therefore, the definition of SOE is an economy that participates in trade with other countries. However, due to its geostrategic position, size and population, the trade policies or reforms implemented in the SOE do not have the ability to affect the levels of world prices, interest rates or incomes (Berrill, 2010; Doyle and O’Connor, 2013). Gadolfo (2002) agrees with the definition and adds that SOE is conceptualised as an economy in which whatever policies are implemented; they have a ‘negligible influence’ on the world economy and the exogenous world markets. For the purposes of this research, I consider Macedonia as a small open economy and as a country in transition. As mentioned previously, due to the population size, the size of the GDP and the geographical size, Macedonia is regarded as a small economy. The small and

open character of the economy is presented through the orientation towards trade, but Macedonia does not affect the international terms of trade. Finally, according to the academic literature, since Macedonia has undertaken the process of building market conditions, creating private ownership, private property, developing capital and legal markets as well as institutional infrastructure from scratch, the country can legitimately be considered as a transitional economy.

I also aim to provide here a basic description of the Macedonian macroeconomic determinants and present the reasons why this transition economy is regarded as a small and open economy. This is useful to reference back to when conducting the empirical analysis in such a way to provide further information about the economic developments in Macedonia.

The performance of the Macedonian economy can usefully be assessed in three distinct periods: the first is the period from 1992-2000, so roughly the first decade following the country's independence; the second period from 2000-2008 and the third period from 2009 - 2015¹⁸. This first period is comprised by the turbulences and difficulties facing the newly independent country outlined above. Both and its percentage change indicate stagnation and even shrinkage of the economy during the period 1992-1996 and then a small expansion in the period 1996-1999, with a downturn during the Kosovo crisis in 1999 and a sharp downturn in the Macedonian economy in 2001 as a result of the ethnic conflict in the country. In the period from

¹⁸ See figure 3.3 for details

1996 to 1999 a significant economic growth is noticed due to the smaller increase in the GDP per capita and the low external debt.

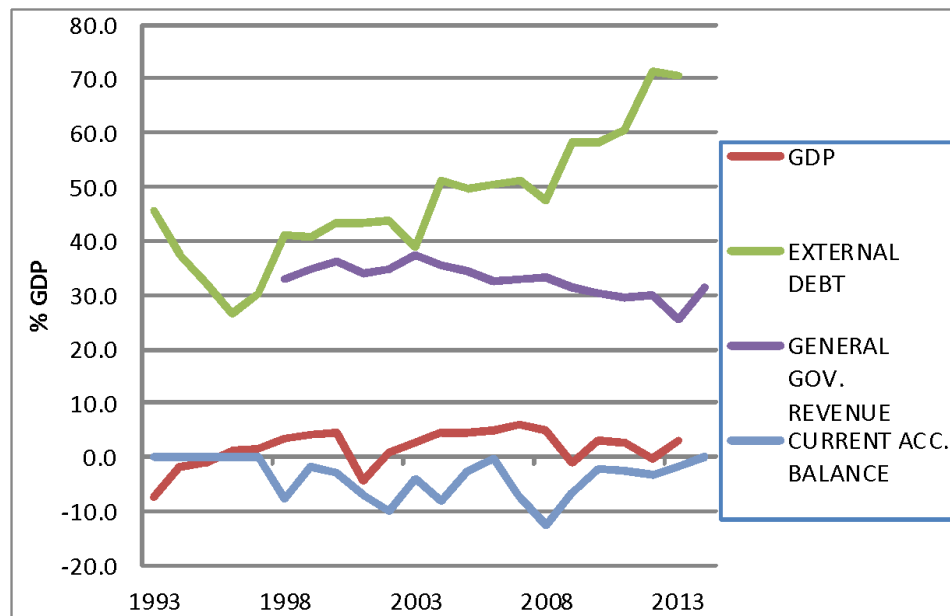


Figure 3.2 Macedonian economic indicators

In the period between 2000 and 2008 (especially after 2001) the economies of the SEE region including Macedonia had enjoyed a mini-boom with a stable increase in GDP. This mini-boom mainly had been fuelled by significant capital inflows of international finance in the form of bank credits enabling increased domestic borrowing by both firms and households (Bartlett, 2009). The third period 2008-2015 demonstrates a steady temporary increase in the GDP. However, in 2009 and 2012 there was a downturn in the Macedonian economy due to unfavourable global trading conditions and more specifically the US and the EU crises. Unlike the 1996-1999 period where both GDP and GDP per capita was increasing, the period after 2008 (since the occurrence of the US and Greek crisis) the rate of economic growth was

lower (smaller increase in GDP per capita) due to the falling standard of living.

Investments have also indicated a significant growth throughout this period with an exception in the year 2008 and 2012 where a slower increase in capital inflow has been projected due to the Ethnic conflict in Macedonia, the US crisis and the Greek crisis.

Since Macedonia's independence, the inflation rates¹⁹ have been sky high due to structural problems and the macroeconomic instability in the country. Again the years 2001, 2008, 2012 demonstrate increased inflation due to the domestic political instability and the crises. The high levels of inflation also indicate the low competitiveness due to increased prices on imports. Aside from these specific years, inflation rates have been flexible reaching even lower levels which indicate that import prices have the potential to decline further. For reasons that will be explained in Section 3.4 and 3.5, unemployment rates are consistently high at levels of 30% or more (Bartlett, 2009). The trade and current account balance in the first decade are relatively high and in the second decade, they are normalising. However, the years around the ethnic conflict (in 2001) and the US crisis (in 2007/8) demonstrate increased current account balance. This increase has been crystallised in the last few years of the data series as the crisis has led to a decrease in the consumption of luxury goods. Government debt had been at its peak in 2001. Even in the period of the US crisis, the debt has not been increasing, but since the Greek crisis and the withdrawal of Greek capital, the government debt has increased again, reaching levels of 38% in

¹⁹ See table 3.2 for guidance

2014 (Bartlett, 2008). This increase in the public debt can be explained by the implementation of government programmes to stimulate the private sector during times of crisis, low trade and small capital inflow from Greece. Some of the programmes covered financial stimulus for people interested in self-employment and entrepreneurship.

YEAR	FDI	GOV debt	INF	CUR. ACC.	UNEMP
1993			349.8		
1994	24.0		121.8		
1995	9.5		15.9		
1996	11.2		3.0		31.992
1997	15.8		4.4		36.104
1998	151.2		0.8	-7.8	34.481
1999	91.3	29.8	-1.1	-1.8	32.411
2000	217.5	45.6	5.8	-2.9	31.727
2001	469.6	45.2	5.5	-6.8	30.515
2002	114.2	40.5	1.8	-10.0	31.944
2003	119.0	36.5	1.2	-3.9	36.687
2004	309.1	34.6	-0.4	-8.2	37.15
2005	145.3	36.8	0.5	-2.7	37.25
2006	427.4	30.6	3.2	-0.4	36.025
2007	733.5	23.5	2.3	-7.4	34.925
2008	611.7	20.6	8.3	-12.6	33.775
2009	259.5	23.8	-0.8	-6.5	32.175
2010	301.4	25.0	1.6	-2.1	32.05
2011	507.9	27.7	3.9	-2.5	31.375
2012	332.6	33.7	3.3	-3.1	31.3
2013	413.5	34.2	2.8	-1.9	30.018
2014	436.0	38.23	-0.3	-1.8	28.96

Table 3.2: Macedonian economic determinants

Other programmes that increased the government debt entailed attracting foreign greenfield investment in the newly built free economic zones which provided low tax, free land, faster custom services and other financial benefits for foreign investors (Bartlett, 2009). Finally, one major development project which started in 2010 is ‘Skopje 2014’, funded by the government and consists in mainly building new government buildings, monuments and museums (Balkan Insight, 2014). However,

even though the government has implemented programmes which increase the government debt, the unemployment rate has not decreased. In light of this, it can be concluded that the majority of the government's expenditure through these programmes has not been efficient in tackling unemployment issues in the labour market.

THE IMPACT OF GREEK CAPITAL

As a close neighbour who, as a member of the EU, has access to a large portion of the investment, Greece has had a major influence on the Macedonian economy during its period of transition. The pre-transition economy recognised as only two forms of ownership: social ownership and individual (private) ownership focused on small enterprises (Micevska, *et al.*, 2002). Because it was a small, weak economy with a relatively unstable domestic political climate, Macedonia developed trade connections and investment with Greece (Pettifer, 2010).

The Greek investment in the CEE region began in 1989 but the Greek capital did not find its way into the Macedonian economy until 1995 (Bastian, 2004). Within a decade, the Greek capital increased from only three to 500 companies with 1200 projects specifically in the CEE countries. The majority of these businesses were concentrated in Bulgaria (41.1%), Albania, (20.3%) Romania (20.3%) and Macedonia (2.6%) (Labrianidis, 2000; Sykianakis, 2003). The Greek capital investment was focused on the capital cities of the countries, and was concentrated mostly in trade (47.2%), manufacturing (36%) and services (13.2%) sectors (Labrianidis, 2000;

Sykianakis, 2003). The Greek investors focused on buying out state-owned or private companies to gain a foothold in these markets (Bastian, 2004).

In the 1990s, the largest proportion of FDI in Macedonia was coming from Greece and the country was perceived as the primary capital exporter in the region its investment reaching \$80m in 2004. As a developed country and a member of the EU, it was hoped that Greece might assist these countries in their accession to the EU (Slaveski and Nedanovski, 2002). Between the country's independence in 1991 and 1994, the Greek investments were negligible (\$33.9m) because Macedonia had suffered so many economic shocks, embargos and not made sufficient progress with restructuring reforms so as to achieve macroeconomic stability (Hunya, 2002; Slaveski and Nedanovski, 2001). According to Minassian (2002:47), the involvement of the IMF in the country was perceived positively by investors, as a deliverer of 'brighter outlook' and a carrier of 'positive impact' on the stabilisation of the economy. However, the low growth rates in Macedonia can be understood through the evidence that other countries in CEE undertook restructuring reforms much earlier than Macedonia (Micevska *et al.*, 2002). Macedonia was referred to as 'a late reformer' and has been carrying out some active programmes and receiving funding from the IMF, at the same time demonstrating a strong commitment to structural reforms and more specifically enterprise privatisation (Minassian, 2002). According to the official statistics, investment surged in the period after 1995 and reached \$121m in 1998, but the crises in the region in the period following (Kosovo crisis and the ethnic crisis in Macedonia) did not enable the levels of FDI to increase further (Slaveski and Nedanovski, 2002). Greece was present in the Macedonian market with 34.5% of the

foreign capital in 1999 and some of the most significant Greek investments in Macedonia were in petroleum, food and beverages, metals and primary materials, as well as the services, banking and tourism sectors (Pettifer, 2010).

In the new millennium, the levels of FDI increased up to \$300m due to the late privatisation process which took place in Macedonia. The investments concentrated in industry, services and small businesses and retail outlets were attracting investors of different origins and lowering Greece's importance as a trade partner (from the first to the fourth) (Slaveski and Nedanovski, 2002; Tsardanidis and Karafotakis, 2000). After the EU Stabilisation and Association Process (political and economic stability in the region), the prospects of joining the EU led to the previously mentioned increased levels of FDI after 2000 (Estrin and Uvalic, 2014). By 2010, the levels of FDI in Macedonia had increased eightfold²⁰. Nevertheless, Greece still today maintains one of the highest positions amongst the top investors and trade partners of Macedonia.

Figure 3.3 indicates that the country's three largest trading partners are Russia, Germany and Greece; although trade with Russia has declined rapidly in the past three years, being replaced by the UK. This significant increase in imported goods and services from the UK can be explained by the two major automotive investments made by Johnson Matthey in 2006. In the wake of the global financial crisis, Macedonia began to diversify its imports with Turkey, the UK, and Russia playing a larger role. Figure 3.5 also indicates the major countries that Macedonia exports to using data for the period 1994 - 2014.

²⁰ There was a noticeable increase in investments in the service sector (50%) and in the manufacturing sector was 31%, as well as change in the origin of the FDI (Netherlands 16.5%, Greece 12.9% and Slovenia 12.4%) (Estrin and Uvalic, 2014).

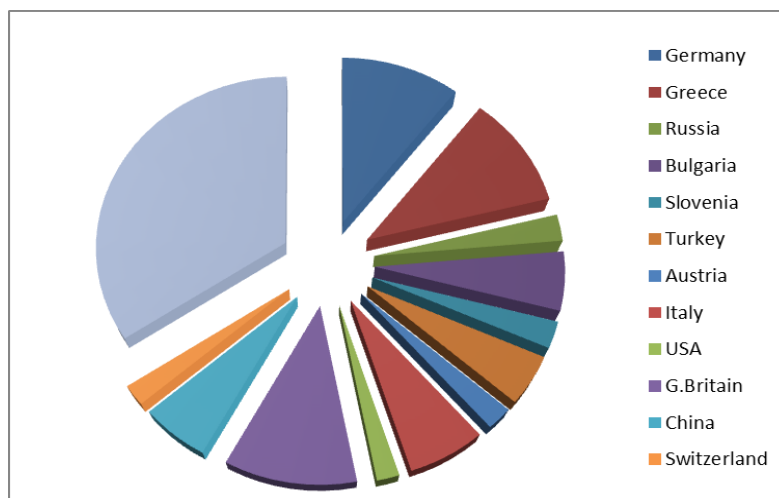


Figure 3.3: Macedonian imports (2013)

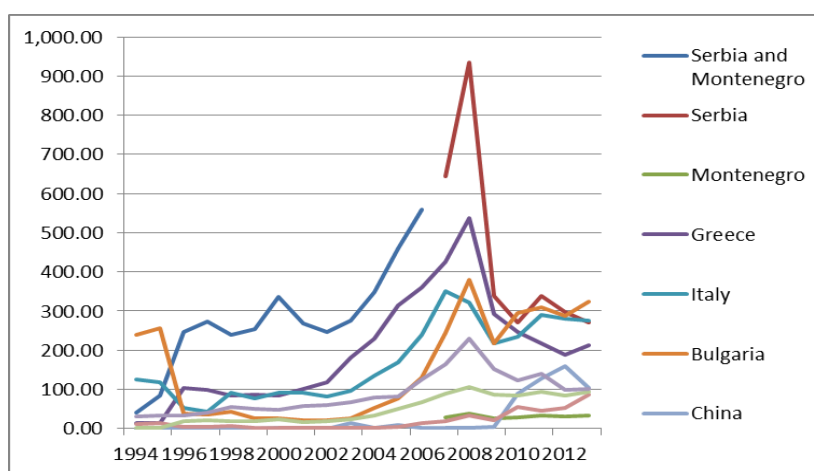


Figure 3.4: Macedonian exports in million US dollars (1994 - 2014)²¹

Figure 3.4 and 3.5 focus on the Macedonian exports through the years leading to the illustration of Macedonia's leading export markets in 2013, which are Serbia, Greece and Italy (although Bulgaria has become an increasingly important export

²¹ The blue line which in the period 2006/07 becomes red and green indicates the disintegration of Serbia and Montenegro in two independent countries.

market since the global financial crisis). Other key markets are those of countries that are fellow members of the Central European Free Trade Agreement (CEFTA) signed by countries from South-East Europe²². On the other hand, Macedonia also has close trade relations with neighbouring EU countries because of its competitive labour costs and the ease of transport.

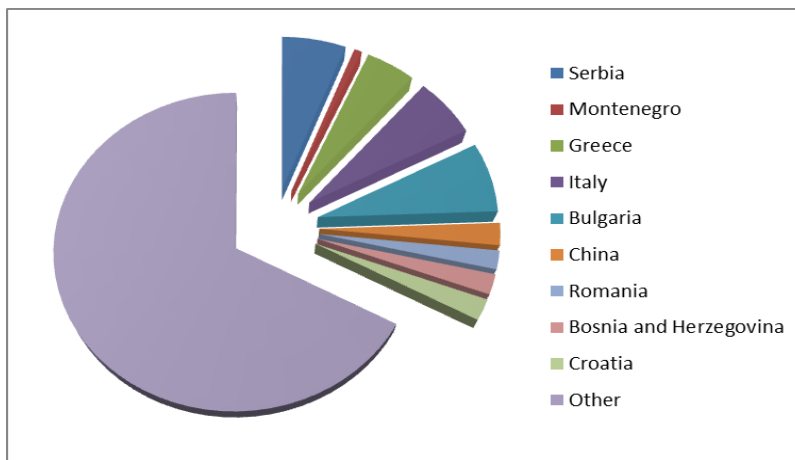


Figure 3.5: Macedonian Exports as a % share (2013)

Figure 3.6 illustrates the major origin countries for Macedonian FDI since independence. Until the occurrence of the Greek debt crisis, Greece provided the lion's share of FDI and continued to invest although with a small decrease since the Greek domestic crisis. Other significant investors are the Netherlands in the heavy industry and flower reproduction (Mittal Steel and Anthura), Austria in the telecommunication sector (Mobikom) and the electricity sector (EVN) and Slovenia in the banking and telecommunication sector (Tutunska Banka and ONE).

²² As of July, 2013 the members of CEFTA are Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo.

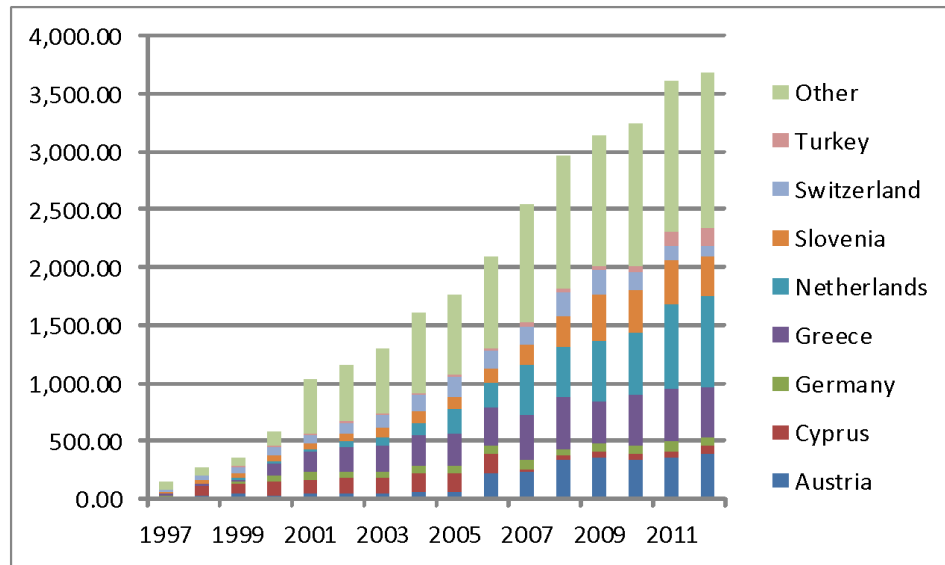


Figure 3.6: Top investors in Macedonia (1997-2013)

THE GREEK DEBT CRISIS

Even though Greece is situated at the periphery of the EU, its significant geopolitical position has lent it economic and political importance. The country was a NATO outpost in the Balkans and its position provides easy access to the Muslim world and the oil-rich states of the Middle East. It also plays a significant role in balancing Turkey's influence in the Middle East and as a link to the former Soviet Union countries (Georgia) (Schmidt, 2010a: 81). However, its geopolitical role requires the state to spend double the NATO average on arms relative to its GDP (even comparing to the US) (Kollias and Rafailidis, 2003). Schmidt (2010a) argues that these defence costs help to explain Greece's current account deficits, together with decreased domestic production and high rates of social benefits. For the purposes of this thesis, I need to highlight that I am focusing on the understanding the Greek crisis and its influence on the Macedonian economy. Thus, I touch upon the internal

politics of Greece and what lead to the Greek crisis only to connect this crisis to its influence on the Macedonian economy. The timeframe that I am considering is from the occurrence of the crisis until 2013 when I began my thesis. Considering the political changes and economic turbulences that have taken place in Greece recently (after 2013), I believe that it is crucial to make clear what I am covering and what not.

Greece was perceived as a high spender country and unable to collect budgeted revenues. This resulted in high levels of tax evasion, which coupled with the fantastic pension schemes and high wages were deterministic factors to the Greek budget (Rossi and Aguilera, 2010). Greece has been considered a highly corrupted and politically unstable government, which lacked management, faked official deficit and debt figures (Kouretas and Vlamis, 2010; Koutsoukis and Roukanas, 2011; Schmidt, 2010b: 82). Rossi and Aguilera (2010), argue that the Greek crisis is based on two aspects which are of internal and external nature; the long-term increase in the public debt (internal debt) because of the large budget deficits and the high external debt due to large account deficits. Nelson, Blekin and Mix (2010) argue that Greece had built up a significant part of the current debt even before the crisis occurred while liquidity was at high levels in the market. Thus, when the liquidity levels decreased, the Greek government was not able to do anything else but increase its external financing and debt (Nelson *et al.*, 2010; Selcuk and Yilmaz, 2011). Selcuk and Yilmaz (2011) further explain that because of the global crisis, the Greek budget balance (national income and expenses) received a negative impact due to the national income, which decreased because of the low consuming demand and the lower levels of foreign trade. On the other side, the public expenses had risen due to the

interventions made to the financial system (Selcuk and Yilmaz, 2011). This is how; Selcuk and Yilmaz (2011) argue that the Greeks achieved to build up a high debt in the early stages of the global crisis in 2008. One of the EU authorities' weaknesses was to provide a stable regulation (European Monetary Union (EMU)) under which member countries would be able to function properly. However, the Greek government since joining the EMU was not able to print new money, make individual monetary decisions or in any way cause fiscal imbalances (Akram, Sajjad, Fatima, Mukhtar and Alam, 2011). Therefore, a hypothetical quantitative easing in an EMU would have led to a devaluation of the value of the currency and other members of the Eurozone would not want to see their money devalued (Akram *et al.*, 2011). Thus, the ability of one government to implement quantitative easing to achieve monetary and fiscal stability was non-existent after Greece's joining the EMU. According to Akram *et al.*, (2011) this is one of the tools that speed up the occurrence of the Greek debt crisis. However, my coverage here is limited to the aspects of the Greek crisis that have impacted on the situation in Macedonia.

Here I intend to focus on what academics and media commentators have mentioned regarding the effects of the Greek debt crisis in Macedonia. When relating to the impact of the Greek crisis, it is important to mention its impact on the neighbouring region, more specifically the SEE countries (Macedonia, Serbia, Bosnia and Herzegovina, Montenegro, Bulgaria and Albania). However, as argued by academics, while some states have been deeply affected, others appear to have been lightly touched by the crisis (Bartlett and Prica, 2012). The global economic crisis has little hurt the Macedonian economy. As argued by academics, the Macedonian

economy indicated high dependence on the performance of only a few sectors and price fluctuations of its most important trade partners (Nenovski, Smilkovski and Poposki, 2011).

In general, the literature argues that countries which had relatively high pre-crisis growth, such as Bosnia and Herzegovina, Macedonia and Serbia, experienced a moderate decline in 2009/2010 (Bartlett and Prica, 2012). One of the main features in the last decades was the capital inflow in the form of foreign banks establishing subsidiaries in the region. This high penetration of foreign banks is significant especially in Albania, Bosnia and Herzegovina and Macedonia where the asset share reached 90% (Backe and Gardo, 2012). The sudden stop in credit growth came in 2009 in the region; this meant that banks were no longer lending to the private sector, leading to an increase in nonperforming loans (in Macedonia it exceeded the 10%). However, as argued by Petrovski (2001), ‘the shallow financial system’ and the economy’s non-integration into the global financial markets protected the Macedonian economy from crisis spill-over effects.

A major impact of the Greek crisis has been through the sharp reduction in FDI inflows and trade. The great openness of the economy toward foreign economies, according to academics, lead to spill-over effects from the crisis in Macedonia (Nenovski *et al*, 2011). More specifically, the trade relations with other EU countries (Germany, Bulgaria, Greece, Italy etc.) in recession affected Macedonia as well (by decreasing the exports towards these countries). However, the local Macedonian literature highlighted that except for the two consecutive quarters in 2009 where the economy experienced negative trends, the second half of 2009 it recorded positive

growth rates (IMF, 2012). According to Nenovski (2010), this modest and rapid repair from the crisis in Macedonia is due to the anti-crisis measures implemented by the government and the establishment of small and medium enterprises which absorbed the labour force in Macedonia. Therefore, the Macedonian economy was significantly less injured by the crisis compared to other economies (Nenovski, 2010; Nenovski *et al.*, 2011).

3.6 CONCLUDING SUMMARY

This chapter presented a detailed analysis of the context in which this thesis is undertaken; namely the Macedonian economy during its period of transition from a planned economy to a market economy. The setting is one characterised by crisis and instability, both within the country and in its immediate neighbourhood (Micevska *et al.*, 2002). It is evident that the social environment in Macedonia since its independence has not been a favourable one for the establishment of a stable and thriving market economy (Eurofound, 2012). The events that took place, beginning with the Yugoslav war (1993), the Greek embargo (1995), the Kosovo war (1999) and the Albanian terrorist attacks in Macedonia (2001) made the country's economic transition to a market economy even more challenging. During this transitional period, the economy was characterised by low economic growth, low levels of FDI and domestic investment, high unemployment rates and growing poverty. These factors created their turbulence, demonstrated through strikes, demonstrations and protests (Eurofound, 2012).

The Macedonian economy was faced with many vulnerabilities even before the advent of the global economic crises. A large amount of academic commentary has suggested that these processes of transition are more or less similar in all of the countries from the former Yugoslavia (Bacanovic and Jovanova 2011; Nikolic-Ristanovic, 2008). However, I would argue that Macedonia's size, the level of institutionalisation and development, political stability, and the transition process, appear to be more challenging than in other ex-Yugoslav republics even though since in Macedonia civil war never took place as in the other ex-Yugoslav republics. The reforms from a planned to a market economy that began with the privatisation of state-owned enterprises as mentioned previously indicated increased corruption (Bacanovic and Jovanova, 2011). Also, Macedonia's principal partner and neighbour Greece has also been subject to turbulent economic forces. Adding to this, the debt crisis of one of the top investors and trade partners of Macedonia made economic progress even more difficult for an SOE such as Macedonia. It is against this backdrop that the events are studied in this thesis in more detail in the following chapters. Considering the arguments highlighted in this chapter, it is important to present the theoretical underpinnings of this thesis. The next chapter illuminates the reader about the ontological and epistemological understanding of the researcher in this thesis.

CHAPTER 4

THE COMPLEX PHENOMENON

4.1 INTRODUCTION

Having laid out the context for my research I now move on to discuss how I will address my research questions. It has become clear through the discussion in the preceding chapters that we are dealing with a highly complex situation with many interrelating variables and factors. I intended to take this complexity into account in designing my research programme rather than shying away from it and simplifying the research context to match my methods.

Although both scientific method and philosophy have never existed in isolation from one another, in recent years their interconnections have become the source of growing research interest. The process of globalisation and the dominance of rapidly changing technologies have opened a new potentiality for research (Cilliers, 1998). The ‘traditional scientific method based on analysis, isolation and the gathering of complete information’ regarding an event is inappropriate in dealing with complex correlations (Cilliers, 2010).

As Cilliers (1998) argues, philosophy has a significant role to play in integrating itself into the scientific and technological process of research. I begin from the critical position that mainstream economic theory has failed to predict, prevent or explain the

turbulence of the recent economic and financial crises. Roubini (2006) predicted the US housing bubble crash in 2007-2008 back in 2006 and Krugman (2014) has recently argued that Keynesian economic theory predicts such events. However, the problem remains that the majority of policy-makers and academics who follow mainstream economic theory blindly and remain ‘ignorant and arrogant’ in the ‘run up to the crisis’ thought that such events were impossible (Stiglitz, 2002). Specifically, mainstream economists and policy-makers failed to account for the interconnectedness of countries and markets as a result of the process of globalisation. This argument assists in determining my philosophical positioning in this research and adopting the approach towards complexity theory.

Thus, the critique of orthodox economics is significant to the understanding and study of complexity theory (Cilliers, 1998). My intention is to highlight the need for using a more complex economic theory that bypasses the neo-classical economic approach, an approach that focuses on equilibrium and simple bivariate interactions. Complexity theory satisfies this need as it considers the economy as a system of heterogeneous agents, which correlate and create non-linear events and emergent properties that further influence the economic state in general (Arthur, 2013; Frieden, 2009; Mowles, Stacey and Griffin, 2008).

The following section provides a general understanding of what complexity theory represents, its epistemological and ontological aspect, as well as the use of this theory in other disciplines. Section 4.3 focuses on the use of complexity theory to critique mainstream economics as well as its application in the context of this thesis. Section 4.4 summarises the main points.

4.2 COMPLEXITY THEORY

The development of complexity theory initially began from the idea of system theories used in biology to explain the natural world. Complexity theory surfaced at the end of the last century as a motif in the social sciences. Having altered the physical and biological sciences, complexity has been perceived as ‘a potential new paradigm for the social sciences’ (Byrne, 1998; Gatrell, 2005; Urry, 2003). It was argued by academics that it could efficiently be implemented in the social world equally by using negative feedback to bring the system back to a state of equilibrium (Holland, 1998; Kauffman, 1995). This later developed into a dynamic system theory and led to the emergence of complexity theory.

In general terms, this approach suggests the abandonment of the assumption that the analytical strategies implemented in economic systems are valid. More specifically, changes occurring over time not only generate changes in other areas of the system but also produce unexpected consequences with unpredictable outcomes (Byrne, 1998). In short, Byrne (1998) concludes that these changes and processes are evolutionary and historical.

In a period of high integration of markets and globalisation of systems, societies and cultures, it is of great importance to realise that we live in a small over-integrated world where everything is connected to everything else (Gatrell, 2005). Barabasi (2002) has argued that most of the phenomena that occur around us are caused by and interact with a large number of other parts within a complex whole. Capra (1997) suggests that one should initially take into account the system he/she is

considering, recognise the elements that comprise that system and analyse the way that these elements interact along with the links that connect them (Gartell, 2005).

This section explores and assesses complexity theory through the work of Connolly, Cilliers and some other post-structuralists, to understand how this theory is applied in the economic space. The characteristics that are presented in the following paragraphs are not only a definition of complexity theory, but they also provide a general qualitative description. By accepting this description, Cilliers (1998) argues that the implications of complexity theory can be investigated for a particular organisational system.

4.2.1 COMPLEXITY THEORY, NATURAL AND SOCIAL SCIENCES

The complexity theory discourse has been used in the natural sciences for the last few decades, but in the social sciences is relatively new. According to Walby (2007: 449), ‘complexity theory is a loose collection of work that addresses fundamental questions about the nature of systems and their changes’. Thus, complexity theory is regarded as an approach that has emerged not to provide a holistic and collective perspective, but rather to offer an understanding of contexts whose whole structure depends on the emergent properties which arise from them. It has been adopted in many various disciplines as a part of both social and natural sciences (Thrift 1999; Waldrop 1992). It is argued that even though the common physical laws are embraced, systems continue to behave in a complex way and traditional theories and models that do not take into consideration historical time cannot understand these complex systems (Foster and Hozl, 2004). Thus, Complexity

theory has been used across a range of disciplines, in both natural and social sciences (Capra 1997; Waldrop, 1992).

In the late 1990s, a growing number of social scientists began supporting the idea of complexity and complex relations in many books, articles and conferences, which encompass the complexity idea. Initially, complexity theory contributed by being applicable in various disciplines, such as sociology (Eve, Horsfall and Lee, 1997), cognitive science (Kennedy, Eberhart and Shi, 2001), cognition and language (Cilliers, 1998), economics (Anderson, 1999; Arthur, 1999; Foster and Hozl, 2004), organisation science (Boisot, 1998; Kauffman, 1995; McKelvey, 1999) and management (Goldspink and Kay, 2004; Stacey, Griffin and Shaw, 2000). In the field of economics and social sciences, complexity theory has spread in various areas interlinked with this discipline, such as economic and social history (Frenken, 2006), political theory (Roseanu, 1996, Connolly, 1991), and technological innovation (Frenken, 2006). This progression has been conceived as a rise of a new episteme that will challenge the traditional epistemological and ontological assumptions about the environment and the social phenomena that surround us (Wolfram, 2002).

Complexity theory is open to contestation and has provided fertile ground for competing interpretations by academics from across the social science disciplines (Stewart, 2001). Some of these academics, such as Byrne (1998), connect complexity theory to realism. Some, on the other hand, argue that complexity theory is linked to post-modernism and post-structuralism (Cilliers, 1998). Luhmann (1995) argues that complexity theory bears a connection with functionalism and phenomenology while Jessop (2002) relates it to Marxism. Wynne (2005) uses the complexity theory to

challenge reductionism and McLennan (2006) criticises the application of complexity theory but considers chaos theory as a more applicable theory.

This relatively new theory and its usage in economics is of very recent pedigree (Anderson, Arrow and Pines, 1987; Arthur, 1999; Foster and Hözl, 2004). According to Frenken (2006), one of the most significant benefits is the capacity of the complexity theory to model complex formats with fewer parameters. Urry (2003) even argues that complexity can assist in breaking down some of the differences between social and natural sciences. Considering that complex system can be recognised anywhere and in any form (ecosystems, weather, markets, societies, technologies, languages), complexity theory has an understandable interdisciplinary nature; one that encircles a broad dimension of theoretical contributions (Frenken, 2006). This interdisciplinary character, as Urry (2003) suggests, is noted in the core of the complexity theory as a fusion of the natural and the social (Foster and Hozl, 2004; Markose, 2004).

Complexity theory, together with modern political theory, has been perceived as imposing a challenge for modern democracy (Greenwood, 2007). Since democracy involves ‘multiplicity of values to be accommodated’, political and economic institutions, according to Greenwood (2007), should provide the freedom to economic and political actors to function autonomously. However, markets today involve some problematic issues (such as inequality, instability), which impose more challenges for modern democracy. The combination of these two theories presents a more modern perspective than the one in the mainstream literature regarding the analysis of IFI’s influence on developing countries. Moreover, complexity theory implicates the

conception of the structure of systems and the way in which complex systems can be managed (Cilliers, 1998). It is crucial to acknowledge that the study of complexity theory does not determine the way complex economic systems should be operated successfully or provide a ‘quick fix’. Nevertheless, the lessons are valuable (Cilliers, 1998).

4.2.2 DEFINING COMPLEXITY THEORY

There have been many ways of defining the meaning of complexity theory. Simon (1996) argued that complexity theory encompasses the study of complex systems and the idea that complex systems are comprised of many ‘elements that interact in complex ways’.

Before moving to the main components of complexity theory it should be highlighted that three major streams of complexity exist. At this point, I want to clarify which one of these major streams of complexity research I regard as important for my study. Least important for the current research is algorithmic complexity (from a mathematical and information theory aspect) that argues for ‘complexity of a system resides in the difficulty of describing system characteristics’ (Manson, 2001; O’Sullivan, 2004). On the other hand, deterministic complexity simplifies the dynamical systems by using chaos and catastrophe theory. I regard this as less important for the present study (Manson and O’Sullivan, 2006). Aggregate complexity, argues that elements working together ‘create a complex system with internal structure relative to surrounding environment’. These systems also display learning and emergence characteristics (Manson, 2001; O’Sullivan, 2004). By

considering the uncongealed nature of complexity concepts, I intend to highlight one of the many frameworks that I deem as essential to my research.

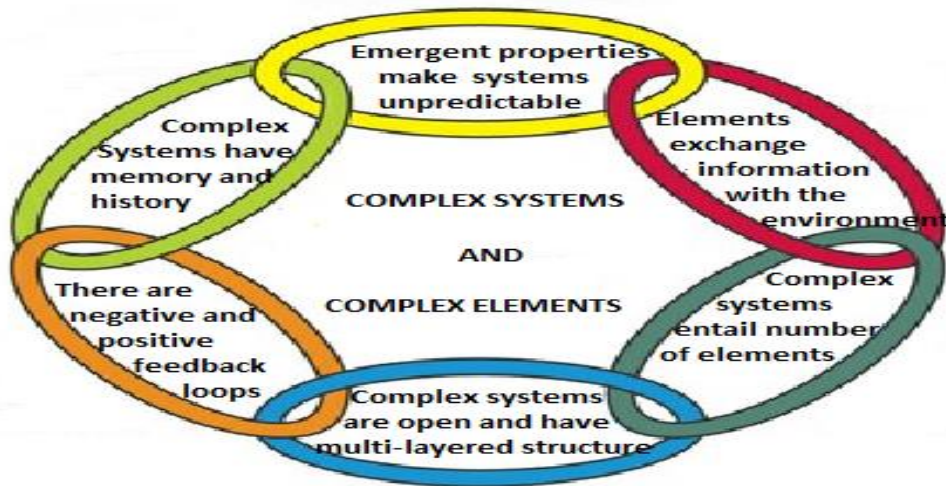


Figure 4.1 Characteristics of Complex Systems (Cilliers, 2000: 23)

Many academics have addressed the clarification of complexity theory at the social level. One of them is La Porte (1975) who argues that the level at which complexity theory is noticed in social systems is dependent on the number, the variety and the level of interconnectivity amongst the system elements. Zolo (1992), on the other hand, agrees with La Porte's (1975) view but introduces the significance of additional core themes around complexity theory. He argues that the turbulent environment, the non-linear changes in the elements, as well as the degree of subjectivity of factors influenced by the dynamic environment, are also important for the application. Most academics argue that the way complex systems behave is interesting but also difficult to forecast from only knowing the elements, mainly because the behaviour is non-linear. Thus, an insignificant change in one or two variables might create a strong development of the whole system (Anderson, 1999;

Cilliers 1998; Daft and Lewin, 1990). Day (1944) argues that a dynamic system is complex if it does not lead to an equilibrium and adds that it is characterised by non-linear ‘difference equations with stochastic elements’. Holland (1998) argues that these new formats developing through the interacting system components are the most crucial to the understanding of complex systems. Through the movements and transformations of relationships, a new system of properties emerges, which needs to be analysed further (Cilliers, 1998). In light of the previous arguments, the Figure 4.1 illustrates the main complexity elements that the academic literature deems important and the Table 4.1 below summarises the complex characteristics which I focus on in more detail and consider relevant for this study.

Complex systems are open	multi-layered structure, memory and history
Complex systems are evolving	exchange information with the environment
Complex systems are unpredictable	due to emergent properties of the system

Table 4.1: Characteristics of complexity

In the study of the Macedonian economic system, I use the elements presented in the table above and, through this I determine the complexity of an economic system. At this stage, my intention is to highlight the applicability of this theory in the specific research. Considering the previous arguments, this thesis uses three main characteristics of the complexity systems and applies them to the empirical analysis. The first segment of complexity theory applied in the empirical analysis is the fact that complex open systems have a multi-layered structure and the ability to learn and memorise – they have a history. This relates to the unique character of each system

and the importance of the system's history. An additional complexity issue is the ability of systems to exchange information with the environment, thus events play a central role. With the support of complexity theory, I argue that through the rich and dynamic interactions of elements, positive and negative feedback loops are generated. Finally, emergent properties occur in a complex system. This leads to the understanding that forecasting and predicting individual outcomes is difficult. Even though, throughout the whole thesis, I am relating to all of the complexity characteristics presented in Figure 4.1, I must underline that the main use of this theory is through the mentioned three characteristics in the table above. Having discussed the key aspects of complexity theory, I move towards conferring the ontological and epistemological aspect of complexity theory in my research.

4.2.3 ONTOLOGY AND EPISTEMOLOGY OF COMPLEXITY THEORY

The characteristics presented in the table above formulate the 'vocabulary of complexity' that constitutes the ontological background of the complexity theory (Lissack, Maguire and McKelvey, 1999). This highlights a particular aspect of the complex reality that explains how systems (including both the natural physical system and the social system) are structured and evolve (Prigogine and Stengers, 1984). As pointed out by Manson and O'Sullivan (2006), the complexity theory does not provide an 'all-encompassing ontology'; its breadth of perspective presents the application of the complexity idea across the realist and constructivist approaches. It draws attention to the relationships and links between entities in a system and at the same time is

perceived as a broad-minded theory. Therefore, complexity theory does not only import ideas from the natural sciences and transfer them to the social; it denotes the thinking of the social world as an open system with emergent properties and, at the same time, investigates the conventional instruments implemented in social research (Byrne, 1998). Thus, complexity theory regards knowledge as local but not relative and socially constructed. In other words, complexity is seen as a way to validate 'the engagement of science with reflexive social action' (Byrne, 1998). Therefore, according to the general perspectives of complexity, specificity matters. The holistic approach of complexity theory, in contrast to the reductionist approach, is another way through which the importance of specificity is highlighted. This claim of the holistic ontology of the aggregate complexity supports the notion of emergence, which confirms that the capacity of a complex economic system is larger than the sum of its components (Manson and O'Sullivan, 2006).

The most significant contribution of complexity theory, according to Cilliers (2007), is at the level of philosophy in a way that it provides more insight on how to interpret the findings rather than influence the actual scientific methods used to gather knowledge. By generating the need for re-evaluation of the role of the fundamental truth, reductionism, causality and objective knowledge, the complexity perspective has transformed our thinking of science and society (Cilliers, 2007). Because of this, Cilliers (2007) argues that there is a difference between complexity theory and complexity thinking. The latter involves the 'acknowledgement of complexity as a vital first step', meaning that once we have accepted this idea, our approach to what we are doing changes dramatically, regardless of the method of how we are actually

doing it (Cilliers, 2007: 3). Therefore, the ‘complexity attitude’, Cilliers (2007) argues, keeps abreast of the complexity theory but is not determined by it. Otherwise, complexity theory will become a ‘source of final truth’ that brings contradictions and makes the break with the traditional sciences smaller.

Classical science has tried to simplify and reduce the problems of complexity by determining particular laws and rules as simple truths. This led to the emergence of two different complexity approaches (Human and Cilliers, 2013). Cilliers (2007) refers to them as ‘hard’ and ‘metaphorical’ complexity, where Morin (2007) relates to them as ‘restricted’ and ‘general’ complexity. They both argue that ‘hard’ or ‘restricted’ complexity has not separated from the traditional sciences of the positivist and reductionist paradigm, and the ‘metaphorical’ or ‘general’ approach focuses on a more interpretative methods by social sciences (Morin, 2007; Cilliers, 2007). Against this approach, Morin (2007) suggests the ‘general’ complexity, in which the previously mentioned laws and truths are not regarded as simple truths but are rather considered as assumptions. These assumptions are acknowledged as necessary for the process of science to decrease the degree of complexity at a level at which practical research is possible (Human and Cilliers, 2013). The ‘general’ or ‘metaphorical’ complexity approach indicates that the epistemology of complex systems addresses the relationships between the components and analyses the components themselves (Morin, 2007). Thus, as focus moves from the elements to the contingency and interaction amongst these elements within the system, Human and Cilliers (2013) argue that the need for strong reductionism fails to be possible. This contingency ‘denies the simple and universal models’ (Human and Cilliers, 2013). Having said

this, my argument is not to indicate that the ‘restricted’ approach is incorrect and that the ‘general’ is correct, but to acknowledge the difference between these approaches and the values that each of them carries. However, as an objective framework of understanding complexity has not been established in the academic literature, I as a researcher make the choices to engage responsibly with complexity. This leads researchers into the realm of complexity to many ethical issues that are discussed in Chapter 5 in more detail.

Considering that one perspective cannot highlight the implicit and deep-rooted complexities of a system, the complex systems need to be addressed through several perspectives (Richardson, *et al.*, 2000). Moreover, the numerous perspectives bring richer insights into the complex systems of interest and examine the merit of each perspective in light of the others, leading to better decision-making (Richardson, *et al.*, 2000). Through these different points of view, new perspectives emerge which might prove to be more relevant to the system of interest. It is argued that this intra- and inter- perspective (weak and strong) exploration bolsters the exploration even more (Richardson *et al.*, 2000). According to Richardson *et al.* (2000), after many exploration cycles, the different perspectives naturally converge or a particular view becomes dominant and the exploration process terminates. Therefore, this exploration through numerous aspects is regarded as a ‘principle requirement of a complexity based epistemology’ (Richardson *et al.*, 2000). This epistemological approach according to Flood (1989) has moved from the ‘contemporary authoritarian or imperialist style, where one perspective was dominant, to a more democratic style where a range of perspectives was acknowledged’. The democratic form mentioned

previously relates to the use of a combination of methods in my research, to obtain different perspectives. This methodological approach is addressed in detail in Chapter 5.

The following section provides a critical view of the traditional approach to economics. I argue that they are not simple systems of linear and straightforward cause and effect relations; rather they are constituted of many complex interactions amongst agents, which generate complex effects. The neo-classical economists have recognised market failure and disequilibrium, but at the same time, they supported a system that strives to achieve order, stability, perfection and prediction. This perception views reality as a pure and brittle notion, through which 'good economists have always harboured a richer view of the economy' (Colander and Kupers, 2012; Louça, 2010). By taking into account the complex historical relationship between Macedonia and Greece discussed in Chapter 3, and the vulnerability imposed by the IMF's liberalisation program implemented in Macedonia illustrated in Chapter 7, my idea is to provide an insight of the effects that this small open economy has experienced through the occurrence of the Greek crisis (including the European crisis).

4.3 COMPLEXITY THEORY AND ORTHODOX ECONOMICS

One of the most significant advances over the last 30 years has been the expanding eagerness of governments to open up their economies to global market trends (Simmons and Elkins, 2004). However, the occurrence of the last economic and financial crisis has spread uncertainties throughout the broad population.

Considering the critical literature in the field of economics and neo-liberal financial institutions presented in Chapter 2, I use complexity theory to provide a different perspective on development economics. Through this revelation, my intention is to offer the reader another aspect of the connection between crisis, orthodox economics, neo-liberal institutions and small, open and transitional economic systems.

As mentioned previously, this entirely new approach of complexity economics is not a continuation of the traditional economics. It scrutinises the economy as an open complex system, not in a constant equilibrium that exchanges energy and information with the environment (Cilliers, 2000). According to mainstream economics, economic systems and markets are considered to be always aiming and moving toward a state of equilibrium where simple causes generate linear effects that take place (Manson, 2001). Arthur (1999) argues that, contrary to mainstream economics, which studies ‘stability and repeated patterns’; complexity theory investigates the ‘non-predictability, multi-equilibria, historical path dependence and asymmetry’. Therefore, the universal approach of international financial institutions (IFI), discussed in Chapter 2, is based on the linearity of mainstream economics. According to development economics, the process of economic liberalisation reforms imposed by the IMF in transitional economies should lead to the openness of the economies and growth (Fischer *et al.*, 1996). This leads to the second critical point of complexity theory with regards to orthodox economics.

Traditional economists consider the economy as a whole without taking into account the elements that comprise that economy. Complexity theory argues that systems are in a constant evolution and reformation of strategies and structures

through time (Arthur, 2013). Therefore, economies have a rich, multi-layered structure which is defined by the relationships amongst the components of this structure (Manson, 2001; Cilliers, 2000). In other words, the approach drawing on the ‘organic, evolutionary and historically-contingent’ structure of economic systems brings us closer to the political economy rather than the neo-classical approach (Arthur, 2013). On the one hand, it abandons the neo-classical assumptions of general equilibrium, the rationality of participants and the returns of scale. On the other hand though, it highlights the complex world and the unpredictability of agents’ actions in the system and the lack of rationality in their decision-making. Therefore, contrary to the arguments of Chapter 2, the multi-layered structure considered through the complexity theory does not allow simple causes to generate direct effects, such as the suggested tight monetary policy of the IMF does not always lead to macroeconomic stability (Fischer and Sahay, 2000). The social, political or cultural layer in a complex system might not permit this macroeconomic stability to take place. Connolly (2004) tackles issues that have been neglected by the mainstream theorists such as the fact that political theorising should be a problematisation of the issues occurring in the present through their characterisation, critique and evaluation (Howarth, 2008).

Considering the view of Human and Cilliers (2013), the economy is regarded as a system of large numbers of internal components (simple in themselves) interacting in complex ways. This more philosophical definition of the notion ‘economy’ is used in this study. More specifically, Greenwood (2007) argues that political and economic institutions should enable individuals to take more autonomous actions based on their prerogative values. In line with these arguments, this study perceives the economy as

a system ‘dependent upon limits and constraints’, determined by the interactions of the elements. Considering the linearity and the direct cause and effect argued by orthodox economists in Chapter 2 (Fischer, 1980), complexity theorists argue that the components of the economy interact dynamically by generating rich and non-linear interactions (Cilliers, 2000). These non-linear interactions can be related to the unexplainable outcomes of the economic reforms implemented in transitional economies, or even the unsuccessful reforms, which IFI relates them to the inability of transitional economies to apply the reforms conclusively (argued in Chapter 2).

The non-linear interactions of these components bring forward the existence of direct and indirect feedback loops argued by Cilliers (2000). Manson (2001) explains this by highlighting the relationship of the complex systems with the environment, which traditional economists separate by placing boundaries on the national economy. Manson (2001) argues that these ‘boundaries are permeable’ and the systems transfer information to the environment and vice versa, creating direct and indirect feedback loops. As Cilliers (2000) puts it, ‘the magnitude of the outcome of these interactions are determined by the size of the cause, by the context and the history of the system’ which guides us to the argument in the following paragraph relating to the unpredictability of the economic system. Concerning the discussion in Chapter 2, examples of such feedback loops are the occurrence of high levels of debt, increased inflation, stagnation of the trade relations, ineffectiveness of the implemented structural reforms and so forth.

Cass and Shell (1983) consider the economy as a socially constructed system that incorporates actors with multiple individual decisions and as such cannot predict the

decision of others. Because of the uncertainty that exists and the dynamic and historically dependent character, the economic environment is also uncertain, unpredictable and risky. Thus, the market itself is seen as a producer of risk and ambiguity, which leads to a difficulty in supporting the idea of constant market equilibrium, argued in Chapter 2 (Cass and Shell, 1983). Durlauf (1997) suggests that policy-makers should consider the participants' interdependence and the impact that their behaviour might have on the implemented policies for a successful outcome of the implementation of policies in complex economic systems. It should also be considered that the effects of the implemented policies are not necessarily linear and are dependent on historical events (Durlauf, 1997). Therefore, Cilliers (2000) argues that 'complex systems have memory' and the history of these systems has a crucial impact on the behaviour of the system. On the contrary to complexity theory, traditional economics uses equilibrium-oriented mathematics and reductionist statistical assumptions to predict phenomenon (Arthur, 1999).

Since complexity theory is regarded as 'broad-minded' and entities might be numerous from different disciplines, it considers that the interactions of these elements might be of any type (Manson, 2001). Thus, emergent properties in the system hold a central position surfacing as an outcome of a synergy of the components in a complex system, since it is argued that 'properties' cannot be completely understood solely by understanding its elements (Gallagher and Appenzeller, 1999:78). An example of the emergent properties, according to complexity theory, may be events such as crisis, war, ethnic conflicts, etc., which are an outcome of intrinsic local interactions (Andreoni and Miller, 1995). Emergence is

explained as phenomena that are not ‘analytically tractable from the attributes of internal components’ (Baas and Emmeche, 1997). However, Ostrom (1999) argues that, considering the social realm, reflexivity further ‘complicates the concept of emergence’. As ‘social norms’ might derive from the interaction of components, the reverse also can happen; that is, the emergent properties can also affect the parts. Therefore, it is argued that emergent properties are not aware of their role in ‘emergent phenomena’ (Forrest, 1990). Manson (2001) relates the emergent properties to the uncertainty of economic systems. More specifically, contrary to complexity theorists, traditional economists attempt to simplify and disregard these emergent properties by trying to predict or control the economy (Manson, 2001). This brings us back to the main critique of the imposed neo-liberal ideology discussed in Chapter 2, which can be perceived through the discussion around the crises that have occurred over the last three decades.

Considering these arguments as well as the critiqued oversimplification of the IMF’s suggested policies and the inability of the institution to determine the specificities of the client-country in Chapter 2, the identity of the client-country regains importance. Connolly (1991) emphasises the significance to broaden our reflective experience of contingency and to avoid normalising or neutralising the conceptions of identity. The central idea is that by writing ‘genealogical histories of the social construction’ these models assist in obscuring the identity in a profound way but instead cultivate ‘the experience of contingency in identity/difference’ (Connolly, 1991: 181). The importance of identity in Connolly’s (2004: 342) work derives from the understanding of ‘self’ as a ‘layered and embodied conception’

which is embedded in different worlds of cultural meaning. These layers of the ‘body/brain network’ lead to the questioning of the ‘dominant models of causality’ representative of the mainstream political literature in social sciences (Connolly, 2004:342). By applying complexity theory to the analysis of economic systems, I intend to reveal these ‘dominant models of causality’ that Connolly ascertains as specific for the mainstream literature. Cook and Levi (1990) criticise traditional economists for the ‘all-knowing’, ‘homo economicus rational’ for the assumption of ‘ubiquitous information’ and the ‘insensitivity to local context’ (Manson, 2001).

Before arriving at the more specific linkages between Connolly’s work and complexity theory, it is significant to highlight how neo-liberalism, as one ‘dominant model of causality’ discussed in this thesis, is perceived as an ideology. Connolly (2012) views neo-liberalism as a socio-economic philosophy that solicits modes of state, corporate and church to organise, structure and disciplines state policy, consumers and families to maintain conditions for loose markets and clean-up financial collapses generated from collusion. Several critiques have been brought against neo-liberalism and most of them conclude that neo-liberal capitalism is the ‘most inegalitarian capitalism of all’ (Connolly, 2012). I regard this reference to neo-liberalism as crucial in understanding how institutions that propagate this ideology operate in the real world. According to Connolly (2005b), the historical, political theory of Western countries and societies has embedded the harm that these societies cause on the ‘out-sider’ or ‘the other’. Furthermore, I endorse the perception of neo-liberalism as ‘a general tendency in complex societies to impose the most severe burdens on those already on the bottom tiers of society’ (Wolff, 1950). This

perception of neo-liberalism is related to the arguments made in Chapter 2 regarding the conditionality of IMF policies that oblige client-countries to fulfil to receive the financial loan. The arguments presented in Chapter 2, around the institution's universality over conditionality and ignorance of specificity, are the problematic fundamental issues which occur within the nature of the Western conception of the liberalisation process implemented in developing countries such as Macedonia.

Therefore, the neo-liberal ideology considers markets as self-organising entities with self-adjustment powers and states them as 'clumsy agents of collective decision' (Connolly, 2012). In contrast to this, economists argue that markets do not work as expected; they are rather unstable due to elite collusion, the actions of other states and several of these in conjunction with each other. Therefore, the role of mainstream economics is to study the stability and repeated patterns in a specific environment and economic systems evolve towards 'climax' structure (Worster, 1985). However, complexity theory questions this and is interested in 'multiple equilibria, non-predictability, historical path dependence and asymmetry' (Arthur, 1999). The principal value of aggregate complexity, mentioned previously, is to challenge these conventional notions of stability and change and perceive systems as entities made up of interconnected elements (Manson, 2001). However, as not many economists have been using complexity theory for a qualitative description of economic systems, I turn to political theorists to assist me in doing so.

4.3.1 COMPLEX ECONOMIC SYSTEMS

The advances in complexity theory in the field of biology, neurosciences, geology and climatology yielded the possibility to draw a ‘philosophy of becoming’ through the science of political economy (Connolly, 2012). Through the ‘philosophy of becoming’, Connolly (2012) confirms the existence of complex economic systems which are usually not in a state of equilibrium. Thus, in a world of becoming, periods of relative stability may exist but also periods of rapid change occur, which explain how volatile economic markets can become at particular moments in time (Connolly, 2012). In confirmation of the ‘philosophy of becoming’ I perceive the Macedonian economy and market as complex and comprised of many periods characterised by rapid changes and transitions. Considering Macedonia as an unstable economic system, using Connolly’s work I present the main elements of the complex systems by connecting them to the context. The ‘politics of becoming’ or the fundamental mobility of things has been introduced through the idea of unstable systems, which contain elements of unpredictability, self-development and a ‘trajectory of irreversible change that endows them with a historical dimension’ (Connolly, 2002: 55).

To fully comprehend Connolly’s distinction, it is essential to understand that complex systems are conceptualised as ‘multiply stratified’. Thus, their structure is made up of a system of layers (Simon, 1996). An easy way to understand the need of this system of layers is the demarcation of disciplines and the limitation that this imposes on the conceptualisation of the event at a higher ‘resolution’ of reality (Coombs and Williams, 2013). Considering the Macedonian economic system, the country’s identity is concocted of different layers including but not limited to the

culture, the history, economy, politics, social aspect etc. Moreover, each of these elements is, in turn, multi-stratified. Thus, the economy of a country is comprised of multiple layers cognizant of the macroeconomic and microeconomic aspect. The same thing applies to the politics, socio-cultural aspect and so on. Upon disclosing the above mentioned, again I critique the IMF's approach to the economic reform process made up of standard policies that treated Macedonia as another standard transitional country, which moves from socialist regime toward capitalism. The IMF suggested policies taken from other transitional countries and when applied to Macedonia these policies are considered as best practices. Connolly (as presented by Coombs and Williams, 2013) argues that the 'multi-stratified' system is necessary to avoid limitations in conceptualising events and economic systems according to the laws of quantum physics. Events such as the financial crisis and property bubbles are indicative of the emerging questions that have pressurised political theorists (Coombs and Williams, 2013).

According to Coombs and Williams (2013), events are considered as the 'most reliable fixtures of political life'; however, political theorists rarely take them into consideration. Recently though post-structuralist theorists have begun to address these issues (MacKenzie, 2008; Widder, 2008). Connolly (2002) in his recent works inspired by complexity theory touches on most of the questions and through the 'philosophy of becoming' he brings the events into the central position of his political thinking (Coombs and Williams, 2013). He argues that events occur as a result of the interaction of 'force fields' between human and non-human agencies, which produce nonlinear dynamics in a universe (Coombs and Williams, 2013). In Chapter 3 I argue

that some of the events that transpired in Macedonian history and other political developments that occurred in the Balkans should take a central place in the IMF's decision-making process. To highlight the importance of these events, I present the most influential happenings that have emerged as a result of the 'force fields' and I highlight the effects that these occurrences have had on the Macedonian economic system. One of the crucial events that took place in and around Macedonia was the dissolution of Yugoslavia and the Yugoslav war. This event forced Macedonia to become an independent country with hardly developed institutions, weak economic and political foundations and many unresolved issues at domestic and international level. The casualties following this event, in turn, evoked some of the other political instabilities in the region (such as the war in Kosovo, terrorist attacks in the northern parts of Macedonia, Greek economic blockades on Macedonia, issues with international recognition of the country, UN economic blockade on Serbia, etc.).

It has been discussed in the previous section that complex systems are open and consisting of large components which interact through feedback loops and are capable of energy and information exchange with the external environment (Ladyman *et al.*, 2013). Thus, according to complexity theory, the interaction of multiple elements can lead to increasingly dramatic and unexpected movements in the system. Some examples can be stock market crashes, ecological tipping points, riots, and revolutions (Connolly, 2013). More specifically in the Macedonian case, one example of elements that interacted and led to dramatic movements was the disintegration of Yugoslavia. This, coupled with the Yugoslav war in the 1990s and the turbulent ethnic issues in Kosovo in 1999, led to an increased number of Muslim immigrants in

Macedonia and an economic stagnation due to the closure of Macedonia's main trade markets. The interaction of these elements, in turn, resulted in some unresolved ethnic issues, culminating in the terrorist conflict in 2001.

Another example of an interaction of multiple components is the Macedonian-Greek tensions. Again due to the disintegration of Yugoslavia, Macedonia became independent in 1992. However, many issues arise primarily because of the name and the flag that the country decided to use. The major adversary to the existence of the Macedonian country, its people and its language as part of Yugoslavia was Greece, stating that Macedonia was always a part of Greece and that the language spoken in that country was Greek. The interaction of these elements (the independence of Macedonia and the opposition of Greece) resulted in much more dramatic movements such as vetoing Macedonia's entrance into some international institutions (including NATO), changing Macedonia's flag and name, and the Greek Embargo in 1995. These events prolonged Macedonia's economic stagnation, since the Salonica port in Thessaloniki, the only way for the country to export its products and import goods, was blocked. The dubious circumstances related both to the ethnic tensions and the economic blockades in the region counteracted the investors' confidence in the Macedonian market. Connolly (2013: 404) argues that each of these can be considered as an event that 'happens rather rapidly', affects regular institutions, and brings them into disarray; often there is an insufficient explanation for the 'emergence and amplifications', which actually 'makes a real difference in the world'. Connolly (2011b) highlights that complexity theory cannot be reduced to either a qualitative or quantitative approach. Moreover, this theory is enhanced with notions of interacting

‘force fields’ of human and non-human agencies, which generate non-linear dynamics in a universe ‘open to an uncertain degree and capable of real creativity’ (Connolly, 2011b: 214). The focus of complexity theory on feedback loops and non-linearity, as well as the fact that small inputs can generate substantial changes, make this theory a strong ally against mechanistic deductive conceptions (Cilliers, 1998; Little, 2012; Olssen, 2008).

In light of the above examples of multi-layered structure, the history of systems, and the importance of components’ interaction with the environment, the emergent properties seize a central position in this paragraph. Taking into consideration the examples above, the emergent causality is crucial, needing to be determined precisely and better understood. The aspect of Connolly’s (2013:9) perception of complexity theory is the ‘emergent causality’, which he interprets as the ‘element of real uncertainty that periodically courses through the process of beings’. This is regarded as the central point at which Connolly (2005a) has come closer to the post-structuralist literature on complexity. A significant moment is an idea of ‘Poincare resonances’; the argument stated is that when a system is thrown into disequilibrium, there are emergent elements, which do not enable us to predict the future (Connolly, 2011a: 18). The main critique towards most political theorists who consider the system in equilibrium is that the future cannot be predicted due to the shocks and the new dramatically emergent elements. Moreover, emergence is considered as the fundamental notion of complexity theory. This represents the idea that new elements come into existence, which makes past regularities non-generalisable for forecasting future events. Some of the theorists such as Urry (2003),

Little (2012), and Morin (2007) have also elaborated that in complex emergence lay unpredictable pathways between knowledge and political action.

However, complexity theory does not completely oppose the knowledge of tendencies and probabilities; rather, it makes the movement from one end to the other. This shift is made, on the one hand, where certainty of historical laws provides the point in question, and on the other, where the emergence of novelties is calculable at all (Coombs and Williams, 2013). Thus, complexity's real implications in political practice are 'whether complex emergence is ontologically incalculable or is the result of epistemological limitations' (Coombs and Williams, 2013). More specifically, Coombs and Williams (2013) relate the implication of complexity theory through a simple example. Considering the occurrence of the financial crisis, the following questions arise; is it a result of the inability of experts to predict it due to faulty theories or were they unable to predict it due to the complexity of the systems which generate novel emergent effects unpredictable in principle? Connolly (2013) argues that all events should not be seen as a result of an epistemic limitation, or moments of apparent creativity, rather as moments of onto-creativity. Even though they do not warn against the epistemological conception of complex emergence, they still provide and intensify our engagement with the world (Connolly, 2013). As argued by Cilliers (1998), Connolly is credited with the distinction between ontological and epistemological versions of the event, which are opposite to many other accounts that tend to neglect this ontological interpretation through the definition of a complex system or dismiss the epistemological interpretation.

Macedonia as a complex economic system does not operate according to the expectation of the IMF, but it is a rather volatile environment dependent on many inside and outside factors. Connolly (2012) agrees and he also adds that markets abide by ‘one type of imperfect self-regulating system in a cosmos composed of innumerable interacting open systems with differential capacities of self-regulation’. He provides a more ‘aggressive and focused form of politics’ by aiming to conceptualise interventions at ‘local, state, interstate and global’ political level so that the ‘political thought approaches the idea of layered exploratory engagement appropriate to the contemporary condition’ (Connolly, 2012: 176). Complexity theory provides a new perspective on self-organisation forms that can function without any regulative mechanisms by strategically manipulating the political system (Connolly, 2005b). According to these arguments, Macedonia is regarded as a self-organising complex economic system, whose structure is based on the multi-layer stratification. This structure is made up of many different events that take place and elements that interact and exchange information with the environment. Within this complex economic system and the interaction amongst the elements, there is the emergent causality through which new elements emerge and the inability to be explained through prior historical laws.

Having said this, there is a need to ‘deconstruct the overly homogenised political conception of rationality, morality and collective power in the Western tradition’ (Connolly, 1999). Moreover, conventional theories of pluralism and liberal democracy favour the ‘right’ over ‘the common good’. Hereabouts, Connolly (1999) locates the problematic fundamentalism within the nature of Western conception of

community, liberalism and democracy. Therefore, Connolly's (1999) ontological positioning of complexity theory, coupled with the methodological articulation of critical realism, assists in deconstructing the homogenised conception of 'rationality, morality and collective power of Western tradition' imposed through the IMF in the Macedonian economy. This amalgam of complexity theory and critical realism is discussed in more detail in Chapter 5.

4.4 CONCLUDING SUMMARY

In this chapter I have laid out my ontological and epistemological approach and explained why I believe complexity theory provides the grounding I need when exploring the economic transition of Macedonia. I regard these as essential to a project such as a Ph.D. thesis. The aim of this chapter has been to discuss complexity theory in more detail and to present its application to the Macedonian context, which is crucial before moving on and applying the theory in the empirical chapters that follow. In this chapter I have disputed that complexity theory focuses on investigating how changes and events occur through the interactions between agents, as well as how these events impact and what kind of effects they generate on the system (Arthur, 2013; LeBaron *et al.*, 1999). Thus, the state of no equilibrium in the economic system produces the need to determine the occurrence and the complex causality of changes and what implications these changes develop in a complex system.

Complexity theory, according to Reed and Harvey (1992), is not supportive of the traditional positivists' rules of describing, predicting and explaining. However, it criticises the functionalists' idea of establishing order and that equilibrium can be

achieved. On a supporting note, this theory focuses on interpreting the dynamic reality which it is believed to be emerging through the agents' interaction over time. The assumption of a state of equilibrium produces a filter that limits the scope of the economy and generates a framework, which is perfect but not real, authentic or alive. Thus, as Arthur (2013) argues, non-equilibrium is the 'natural state of the economy' and it evolves and develops in the economic system through the effect of external shocks or other foreign impacts.

It has been argued earlier that the ontological aspect of complexity theory is rather broad and encompasses some theoretical perspectives. However, the epistemology aiming to assist in better understanding the link between complexity ontology, emergence and reductionism, has not been much considered (Manson and O'Sullivan, 2006). O'Sullivan (2004) argues that the aggregate complexity mentioned previously provides few ontological assumptions (how the world is) while indicating a considerable number of epistemological postulations (how we can learn about the world) (Manson, 2001). The consideration of the epistemological assumptions provides a better understanding of the links between ontology, emergence, holism and reductionism. I argued in this chapter that a more appropriate approach to this study of the Macedonian economy is a combination of the ontology of complexity theory and the epistemological aspect of critical realism, which is introduced in the next chapter in more detail.

CHAPTER 5

CRITICAL REALISM AND METHODOLOGICAL DESIGN

5.1 INTRODUCTION

After introducing the key aspects of complexity theory in the previous chapter, this chapter begins by connecting critical realism as a philosophical ontology and complexity theory as a scientific ontology, leading to the idea that this combination of approaches assists in better studying the micro and macro issues in a social environment (Byrne, 1998). I also intend to highlight the significance of this theory in relation to the social sciences in general, as well as deepen the analysis by providing an understanding of the appropriateness of this combination for my research in comparison to other theoretical perspectives. The primary objective of this chapter is to offer an understanding of the philosophical positioning of critical realism, to demonstrate the necessity of this perspective for the better understanding of the Macedonian situation.

By introducing this philosophical standpoint, my aim is to ‘criticise the implicit assumptions behind our thinking’ as well as to link it to the principles of thought that characterise the complexity theory explained in the previous chapter (Byrne, 1998). According to Heylighen *et al.* (2006), an approach such as complexity theory requires strong foundations by indicating clearly the central concepts and principles but does

not provide the universal tool that can be reapplied in any given context. It presents an understanding of how to study, approach and analyse different contexts.

Based on the traditional subdivision of philosophy into ontology (examining knowledge), epistemology (investigating how we know about knowledge) and ethics, this chapter considers all three aspects in more detail (Heylighen *et al.*, 2006).

Therefore by introducing the critical realism in combination to the complexity theory, I intend to familiarise the reader with my ontological, epistemological and the methodological choice in this research.

The following section illustrates the relevance of critical realism in my research. After this, sections 5.3 and 5.4 discuss the methodological design and the ethical issues related to the data collection process, after which I finish with the concluding summary in section 5.5.

5.2 CRITICAL REALISM

Before deeply immersing in discussion around the theoretical perspective implemented here, it is significant to understand the concept of ‘paradigm’ that provides the fundamental beliefs upon which ontological and epistemological assumptions are developed (Guba and Lincoln, 1994; Kuhn, 1962). The paradigm represents ‘a set of shared beliefs, values, assumptions, techniques’ among the members of the society and which enable us to ‘assign unique meanings to objects’ that we are faced with in everyday life (Johnson and Duberley, 2000; Kuhn, 1962). Critical realism preserves its ‘naturalism’ because as academics indicate, this approach

has presented itself boldly concerning the ontological aspect and at the same time carefully towards its epistemological context (Fine, 2004; Lewis, 2004). In this section, I aim to define the critical realism as a paradigmatic approach, present the studies that have combined it with complexity theory and discuss in detail the methodological approach founded on the critical realist perspective, which I have adopted in this thesis.

The ontological perspective of critical realism highlights the common analytical and procedural principles in both 'science' and 'social science' (Bhaskar, 1978). The ontology of the 'realists' is presented through what our senses indicate as reality - the truth and objects exist independently to our senses; thus, researchers should use scientific methods and approaches to develop knowledge (Saunders, Lewis and Andrian, 2007). Academics argue that the main component of critical realism is the notion that everything we perceive is real and generated from 'complex and contingent causal mechanisms', which might not be available to us (Byrne, 1998; Sayer, 1992). Keeping in mind the complexity of the social world, the complex ontology elicits a multi-paradigmatic commitment, as one paradigm cannot dominate. Because of its combined emphasis on the social and material (without reducing one or the other), critical realism has been seen as an alternative solution to this problem-field (Patomaki and Wight, 2000). Thus, through this perspective, the scientific inquiry involves an intricate analysis of the phenomenon; it reflects upon the structures and powers that participate in understanding the outcomes of a particular event in the social reality (Clegg, 2005).

The central theoretical idea around critical realism emerged in the 1980s and provides a scientific look on the real world beyond what we perceive (Lawson, 1997). It has been suggested that this world is opaque and questionable, which demonstrates the need for a deeper understanding in revealing its genuine form (Fleetwood, 1999). Hanson and Yosifon (2003) highlight a straightforward definition of critical realism; a theoretical approach which is committed to obtaining knowledge about the world by the use of scientific inquiry and theoretical analysis, but simultaneously uncovering the subjectivity that leads researchers to produce 'suspicious knowledge'. According to them, being critical insinuates having reservations about what is presented to us as reality or the real world, and questioning how 'knowable' the world is and how scholars, actors and institutions are independent of the 'allocation of power' (Hanson and Yosifon, 2003).

When considering critical realism we tend to investigate the structures and forces that study the processes beneath the surface that generate the empirical (Clegg, 2005). Therefore, the central point of this theoretical approach is the critical view based on 'the philosophical and methodological' context in relation to traditional economics (Dow, 1999). In line with this, I argue that critical realism contributes to the study of complexity theory. Not only by assessing traditional economics based on the fact that systems and elements' interactions are complex, but also by questioning what is presented to us as 'real' and by uncovering the importance of power in the relations between actors and institutions.

Critical realism in economics is initially connected to the study of Lawson (1997) who, through a continuous and lengthened research founded on the theory of

Bhaskar, demonstrates a critical interpretation of the traditional economics and the methodology used in this area (Downard and Mearman, 2002). Adding to this, Lawson (1997) suggests that the essence of critical realism is ontological, arguing that the 'set of methods' that have been considered essential for the neo-classical economics are not relevant to the analysis of social events (Downard and Mearman, 2006). As Friedman (1953) argues, we have been guided towards a controlled way of living and thinking by untrue arguments. To advocate 'human understanding', theories should be founded upon 'reality-based understanding of human thinking' (Friedman, 1953). Therefore, being critical of reality means adopting a way of using real humans to develop models, instead of the other way around, and developing models which will be used to interpret humans (Hanson and Yosifon, 2003).

In this specific research, critical realism has been chosen because it allows me to identify and explore in-depth causal mechanisms and, at the same time, to fill the gaps amongst the traditional philosophical approaches (Danermark, Ekstrom, Jakobsen and Karlsson, 2002; Wynn and Williams, 2012). I confirm Wynn's and Williams' (2012) argument that researchers adopt critical realism 'to provide clear concise and empirically supported statements about causation, precisely how and why a phenomenon occurred'. I believe that his philosophical stand assists in my understanding of how and why the liberalisation of the Macedonian market has generated an economy more vulnerable to the influences of an external crisis. However, it is important to highlight that I do not assume that the causation previously mentioned is necessarily direct. On the contrary, following the complexity theory, this causation is much more complex and contingent. Thus, this leads to the

need to uncover and analyse the interactions and the causality from a complexity theory perspective.

5.2.1 CRITICAL REALISM AND COMPLEXITY THEORY

Classical science has tried to simplify and reduce the problems of complexity by determining particular laws and rules as simple truths. Some of the earliest works on complexity theory and the impact that this theory has in the social sciences have been introduced by David Byrne (1998); his argument develops around shaping the tools of the social sciences to make complexity theory work (Urry, 2003). Moreover, Byrne (1998) places emphasis on complexity as an episteme and the need for interrogating the social environment through the employment of complex tools (Urry, 2005). There have been variations in interpreting the complexity theory by social scientists as presented in one of the previous sections in Chapter 4. It has been argued that Luhmann's (1995) way of combining complexity theory and the synthesis of functionalism and phenomenology introduces a limited range of complexity theory by not focusing on issues such as power, inequality, economics and politics (Marxian view on sociology) (Walby, 2007). It also demonstrates the lack of practical applicability and response to agency issues, as well as being characterised as an 'uninspiring ambassador of complexity theory for much contemporary sociology' (Knodt, 1995).

Social complexity has been associated with few theoretical perspectives, such as Marxism, realism, anti-positivism, and post-structuralism (Stewart, 2001). It has

been discussed that a Marxist (or Weberian) sociological perspective proves to be more open to complexity notions (Byrne 1998; Cudworth 2005). This seems to be mostly the case because of its ability to address issues such as political distortions and dynamic systems in non-equilibrium, which comprise a part of what complexity theory responds to (Urry 2005). Academics emphasise the need for a higher degree of 'openness, clarity and further work in defining the social complexity due to the scepticism that has arisen regarding the idea of picturing the society as a self-regulating system' (Stewart, 2001). Even though there are a significant number of academics that have specified the central positions of critical realism, my present intention is to focus on a limited number of scholars that have linked critical realism with complexity theory.

By using Bhaskar's (1986) critical realism as a philosophical ontology and combining it with the scientific ontology, which establishes the idea of complexity, Harvey and Reed (1996) developed the 'ontological component' of complexity theory. The philosophical positioning of Bhaskar (1992: 37) views the society 'open, historically constituted and hierarchically structured' and at the same time 'complex and indeterminate'. Bhaskar (1979: 42) considers reality as dynamic, complex and stratified - 'one strata is emergent from another'. Thus, changes that appear at one level can be generated by changes at a lower level (Archer et al., 1998). Considering Bhaskar's (1992) view on society and similarly to the critical realists' arguments, complexity theory, as presented in Chapter 4, regards systems as 'complex, indeterminate, open and historically constituted'. Thus, the changes that appear can be generated at other levels through the idea of feedback loops and the multi-layered

structure of systems (Cilliers, 2013; Ladymann, Lambert and Wiesner, 2013).

Consequently, Harvey and Reed (1996) perceive the world as layers of reality, which comprise a mechanism of entities and this mechanism initiates social events in a more complex and non-linear stream of cause and effect. Thus, from a critical realist standpoint, Harvey and Reed (1996) argue that the purpose of scientific endeavour is to analyse and uncover every layer of reality to examine the complex causal factors behind the events (Byrne, 1998).

Furthermore, similarly to Connolly's work (2013) discussed in Chapter 4, Bhaskar (1986) introduces the idea of 'stratified ontology'. He concurs with the notion that reality is a combination of causal mechanisms and events that represent the truth, but he also argues that some of these actual events are not perceived through empirical observations. Thus, reality can be explored further by identifying the causal mechanisms that lead to these actual events (Bhaskar, 1992; Mingers, 2004). Lawson (1999) and Sayer (1992) introduce the three layers of the stratified ontology (the real, the actual and the empirical). Bhaskar (1986) makes a distinction between the 'real', the 'actual' and the 'empirical'. He argues that the 'real' is applied to the 'complex and contingent causal mechanisms', the events that occur through these mechanisms are 'actual', and the things that we experience are 'empirical' (Bhaskar, 1986; Clegg, 2005). More specifically, Patomaki and Wight (2000) elaborate that critical realism highlights the existence of various layers of the world (ecological, biological, social and political), which impact upon each other and that the connections of each layer are powerful components which influence the real world. Here prevails the

ontological compatibility of complexity theory discussed in Chapter 4, and the critical realist perspective presented here.

Initiated from Colliers (1994:27), the statement that: ‘Something may be real without appearing at all’, Bhaskar (1978) explains that in open systems, elements link with other elements and generate phenomena. Moreover, Bhaskar (1978: 13) makes a distinction between complex phenomena as products of causal components and laws as accounts of ‘things really happening’ independently, which might not be ‘expressed at the level of events’. Therefore, critical realists claim that social reality is open and regular events are not common (Lawson, 1997).

According to Rotheim (1999), the primary goal of the critical realist’s perspective is to study and understand the structure of the components or mechanisms that generate certain observable events. These components produce the ambience in which actors are positioned and contribute to the ‘reproduction and transformation of themselves and their social environment’ (Lawson, 1997: 86). The components and their interconnectivity generate forces through which the products and outcomes are the ‘results of a multiplicity of causes’ and the key role of the researcher is to reveal the mystified relations that have produced the outcomes in the social world (Lawson, 1997: 87; Rotheim, 1999). Similarly to this, the arguments in Chapter 4 underline the complex components’ abilities to interact with each other and generate various effects with diverse intensities (Ladymann *et al.*, 2013).

The idea of dissipative systems established by Harvey and Reed (1992) embraces society as a whole, where macro systems are perceived as dissipative systems which further assist in studying the various degrees of complexity embedded in a social

system. This was the focal argument established by Reed and Harvey (1992: 354) that introduced the social systems as a blend of 'nested and emergent levels of increasing complexity' in which the higher degree of complexity demonstrates 'processes through which humans subjectively define themselves and their actions'. They, along with many other supporters of complexity theory presented in Chapter 4, introduced the dissipative systems which, in combination with the critical realist perspective, 'sustain the particularity and plurality of the social world while preserving the rational canon of scientific understanding' (Reed and Harvey, 1992: 355; Stewart, 2001). This idea of dissipative entities or systems affirms that systems are open and far from equilibrium, as well as that, similarly to complexity theory, systems have the ability to exchange information and matter with the environment (Cilliers, 2013). This is another point where critical realism comes closer to complexity theory (Connolly, 2013; Ladymann, *et al.*, 2013). Therefore, Reed and Harvey (1992) argue that by combining complexity theory and critical realism through the 'modified naturalist perspective', systems and societies can be analysed through this notion of dissipative systems.

The combination of critical realism and complexity theory assists in a deeper exploration of the complex causal links between the liberalisation of a small economy and the vulnerability of that economy towards external influences. As most of the previous studies of Macedonia have focused on the linear and direct cause and effect, to fully understand small open economies I argue that researchers should detach from the simple causal mechanisms and investigate the non-linear causality extensively in the complex reality. Thus, the ontology of complexity theory and critical realism

assist in detecting the influence of the IMF economic policy programme as well as its effect on the already vulnerable Macedonian economy. Upon uncovering the non-observable, complex causal links between the IMF liberalisation programme and the Macedonian economy, my intention is to determine the extent to which these complex links are disregarded which makes the policy application less effective; thus, the economy more vulnerable. However, one might ask why is combining complexity with critical realism beneficial for the research since they seem to be complimentary? I argue that while complexity theory provides the basis for my ontological positioning, critical realism provides the epistemological and methodological basis on which my research sustains. The following section refers to the critical realist's epistemology and methodology employed in this research.

5.3 CRITICAL REALISM AND THE METHODOLOGICAL APPROACH

Kuhn (1962) has defined the theoretical approach as a set of thoughts and a 'scientific practice' that social actors adopt. Thus, a set of philosophical and methodological concepts that assists in better studying and understanding the data to achieve theoretical development. It has been argued that critical realism takes into consideration the epistemological developments but at the same time prompts the debate towards the importance of the ontological issues. Critical realism does not undertake the role of science. Rather, it provides a 'method and set of processes' by which a researcher constructs the scientific enquiry to investigate the ontological beliefs in the social world (Lawson, 2003). According to Dow (1999), the

methodological principles help in clearing the philosophical approach that underpins the methodology, the researcher's understanding and direction of the methodological path he/she takes.

Rather than associating just with one dominant paradigm, economists in practice demonstrate the 'methodological awareness' with more than one 'coexisting paradigms' (Dow, 1999). Thus, the methodology is seen as a way of demonstrating the understanding of the advancement of the economic thought through the years (Dow, 1999). Relating to this, Olsen and Morgan (2005) distinguish between the two terms 'method' and 'methodology'. They highlight that method is seen as the technique used to collect data, whereas methodology is viewed as the set of methods and practices that constitute the way a researcher implements and interprets them (Olsen and Morgan, 2005; Olsen, 2008). Therefore, it has been argued that the importance of methodology is connected to the researcher's logic of inquiry, the investigation of the 'potentiality and limitations of techniques' and the 'ways in which knowledge is produced' (Grix, 2002: 176).

In the last few decades academics and researchers have been leaning towards one or the other - either being strictly supporters of qualitative or quantitative analysis, they have evolved into purists on both sides (Campbell and Stanley, 1963; Lincoln and Guba, 2000). On the one hand, the quantitative purists support the ideas, which are more consistent with the positive theoretical approach. They articulate that social observations should be regarded similarly to the approach that natural scientists view physical phenomena and that the observer should be isolated from the phenomena under observation (Maxwell and Delaney, 2004; Popper, 1959; Schrag, 1992).

Quantitative purists argue that the result from a quantitative analysis is a generalisable objective in terms of time and context, and these findings are determined reliably and validly (Nagel, 1986). On the other hand, the qualitative purists dismiss the positivist approach and are considered constructivists and interpretivists. They believe that the existing multi-constructed realities do not produce generalisable outcomes independent of time and context and that the researcher is value-bound, and his subjectivity cannot be isolated from the research (Guba and Lincoln, 1994; Lincoln and Guba, 2000; Schwandt, 2000). Qualitative purists also argue that researchers cannot separate completely causes and effects and that interpretations are generated inductively from the data (Guba, 1990; Smith, 1984).

More recently, the mixed-method research was comprised to generate methods that can describe and produce techniques that are more closely related to what researchers implement in practice (Johnson and Onwuegbuzie, 2004). This so-called third approach has been regarded as a way to cover up the gap between the quantitative and qualitative research methods; which has been widely accepted by many scholars (Creswell, 2003; Johnson and Christensen, 2004). However, it still lacks the philosophical background and positioning, design, data analysis, and rationales that incorporate integration procedures and strategies eventually leading to validity (Green, Caracelli and Graham, 1989; Tashakkori and Teddlie, 1998). Thus, this method should not be considered as an ideal solution; instead, I intend to demonstrate through my research that the mixed-method is a more appropriate method for this study and provides a more detailed understanding of the particular context under investigation (Johnson and Onwuegbuzie, 2004). The mixed-method

attempts to combine a method and a philosophical position that endeavours to suit the insights of the qualitative and quantitative research methodology previously mentioned.

Contemplating the methodological area of social research, the mixed-methods have been implemented extensively. However, this approach can be a 'methodological minefield', mostly as a result of the complex ontological and epistemological issues that are entangled (Pawson and Tilley, 2001). Scholars have argued that researchers should take into account the rationale that guides them towards the implementation of a combination of methods, but the primary goal should be the collection of the optimum results, even if this requires alteration of paradigms (Johnson and Onwuegbuzie, 2004). Some researchers have implemented the pragmatic approach or a combination of both positivist and interpretivist, but it has been argued that these approaches have on one hand proved to be challenging and difficult to integrate interpretative findings and quantitative data (Bryman, 2008).

Through the critical realist position, my aim is not only to provide a simple interpretation or description but also to undertake a holistic analysis. The critical realism philosophy has demonstrated many arguments, which justify the use of multiple methods in a single project (Mingers, 2004). As Orlikowski and Baroudi (1991) argue, the use of one method in a research project might result in the researcher's focus on one aspect of the research area, rather than taking into consideration other factors that influence the area of investigation. As 'the world is complex' and one method 'cannot explain all its complexities', by implementing more than one research method it has been argued that a researcher can have a wider

understanding (Mingers, 2004). The critical realist approach suggests that a combination of both qualitative and quantitative methods is a very useful approach, and it must be considered how these two techniques of research are combined (Pratschke, 2003; Olsen, 2002).

The background theory enables me to conceptualise the influence of an ideology of small, open developing economies and the idea of universal laws versus particular policies and reforms. As this research is interdisciplinary, the intention is to combine a theoretical approach and a well-developed theory, which assists in better investigating and understanding the functioning of economic systems. The heterogeneity in the methodologies, based on the synthesis of complexity theory and critical realism, indicates the existence of several degrees of society that cannot be studied through mathematics or cybernetic modelling (Stewart, 2001)

5.3.1 METHODOLOGICAL DESIGN OF RESEARCH

Research has been defined as a systematic enquiry that is composed of a set of norms, principles and guidelines, which are evaluated and based on the principle of validity, reliability and representativeness (Hitchcock and Hughes, 1995). The decision about which method researchers implement in their research depends on the nature of the research objectives and the nature of the social phenomena that are investigated (Noor, 2008). The approach as argued by Myers (1999), which is adopted in the research work, is the instrument that connects the philosophy, the research design and the data collection; and that, in essence, guides the movements of how

research is conducted. Thus, the philosophy of critical realism begins with a proposition, the analysis of the quantitative data as a starting point and, later on, the data collection and analysis of qualitative data (Myers, 2001).

Before delving into a thorough review regarding the research design, it is significant to mention that this research uses a case study approach, which explores one specific economy in detail. The reasons that have led to the choice of mixed-methods are based on the complementarity, the confirmation and the development of the research (Green *et al.*, 1989). The complementarity issue, which is used in my research, focuses on the case where two methods are implemented to answer different objectives of the research question, and the findings from one method are incorporated into an explanation of the findings from the other method (Green *et al.*, 1989). Morgan (1998) places emphasis on the importance of the priority or sequence of the methods used to highlight the dominance of one of the methods. My research can be characterised as a qualitative dominant meaning that the quantitative research (secondary data analysis) and the qualitative research (documentary analysis) are used as means to generate relevance of the further primary data collection through interviews (Morgan, 1998). The analysis of the data and the integration of the analysed data is conducted earlier. In a way, the findings from the first method are used to impact on the analysis of the data collected from the second method, but also, the findings from the two methods will be used at the end and brought together (Bourgeault, Dingwall and Vries, 2010).

Consequently, my intention is to argue that Macedonia is a system with a set of constituent endogenous elements and agents, whose interaction and correlation with

the particular environment generate unpredictable effects. This constructs the Macedonian economy as 'an ongoing computation - a vast, distributed, massively parallel, stochastic one' and an evolutionary process dependent on events (Arthur, 2013: 27; Rosenau, 1996). Through the mixed-method approach, I intend to investigate how alterations and events occur through the interactions between agents and elements and how these interactions and the Greek crisis have impacted on the Macedonian economy. Furthermore, I explore the kinds of effects that these external factors generate on the Macedonian economic system by affecting one or two elements, which impacts then on other components in the system. The main argument in my research is that the state of the Macedonian economy, argued by complexity theorists, produces an urgency to understand the occurrence and complex causality of changes and the implications of these shifts in a small, open system. Independent of whether the Macedonian economy is in disequilibrium or low-level equilibrium trap, my intention is to critique the universal approach of policy-makers who consider the small transitional economies indistinguishable. Thus, the quantitative analysis helps me determine the effectiveness of the policy implemented and the traditional economic perspective on economic systems. Through the use of complexity theory, I critique the quantitative analysis by evaluating the traditional economic quantitative modelling used in isolation. The qualitative analysis assists in uncovering the hegemonic powers of international financial institutions, which by disregarding the context impose their set of practices. Again by using the complexity theory discussed in Chapter 4, I critique this approach and argue that policies are more effective when

considering the complexities of the system. Having said this, the subsection below highlights the detailed methodological design implemented in this research.

5.4 QUANTITATIVE DATA COLLECTION AND ANALYSIS

The difference between qualitative and quantitative research is based on the aim or objective of the analysis rather than solely on the data collection (Rust, 1993). On one hand the qualitative research provides an understanding of how things happen, on the other hand, quantitative research highlights the how often things happen. However, academic research is not always necessarily limited to one or the other methodology but often is comprised of various techniques and methods of data collection and analysis (Denzin and Lincoln, 2000). The quantitative analysis in this thesis is used to determine the exploratory powers of quantitative linear models and to what extent these models understand and explain the complexity of an economic system such as Macedonia.

I use secondary data of macroeconomic variables, which were extensively used in the literature regarding similar transitional economies discussed in Chapter 2. The secondary data collected accumulate the main macroeconomic determinants for the Macedonian economy focusing on the period since the country's independence (1992-2014).

The data collection was conducted simultaneously with the fieldwork. More specifically, secondary data were initially collected from the open access websites (IMF and the Statistical Office of Macedonia). Due to the cultural background and the

unwillingness of gatekeepers, there is restricted access to the data sources of the National Bank of Macedonia. However, the collection of primary data with interviews and the snowball sampling method assisted me to come in touch with respondents who provided assistance in gaining access to the National Bank of Macedonia. I believe that having the opportunity to talk to these participants about my research and conducting the interviews made them less suspicious of me as a researcher and provided me with access to the data.

Therefore, the data have been collected from the National Bank of Macedonia, and they are annual data for the period since the country's independence 1992 till 2014. The methodology of the data collection is clearly stated on the Bank's website. The data provide information about the main macroeconomic parameters that are crucial for the regression analysis conducted in the following chapter.

After carefully reading the literature regarding linear models used in similar transitional economies by the IMF to provide macroeconomic stability, country-specific macroeconomic variables are incorporated in a previously used linear model for another transitional economy. For the analysis of the data collected, I am using STATA software package, which is a program mostly used in research work in the fields of economics, sociology, political and medical sciences. I chose this package due to its multiple functions compared to SPSS, and the graphical user interface included, which generates codes that can be executed easily. Moreover, STATA has advanced tools for managing specialised data (such as time-series, panel/longitudinal and survey data). This software package has many capabilities, data management

regression and statistical analysis, simulation and custom programming which are easily executed with the use of the command-line interface.

Multiple regression analysis is an old tool utilised by the mathematician Carl Friedrich Gauss nearly 200 years ago (Fischer, 1980). Its use is based on analysing the relationship between a 'dependant variable' and 'independent variables' (Hair, Babin, Money and Samouel, 2005). Nevertheless, its practical use is increasing considerably in the last few decades, due to technological development, the occurrence of new statistical software and methods and with the availability of substantial sources of data (Fischer, 1980).

There are three uses of the regression analysis. The first one is to determine whether a specific variable has a particular influence on another variable. This relates to what is known as 'testing hypotheses' and determines whether the effect of one variable on the other is true or not (Fischer, 1980). The second use is to identify the level or magnitude of effect that one variable has on another variable, also known as 'parameter estimation' (Fischer, 1980). Finally, the third use of regression analysis is to forecast the values of some variables. Thus, by estimating the values of some independent variables, the idea is for the researcher to be able to predict the value of the dependent variable. This 'unconditional forecast' is relatively inaccurate and is less practical compared to the 'conditional forecast' (the first and second use of regression analysis) (Fischer, 1980).

The linear regression analysis can be simple or multiple. Simple regression analysis examines the relationship between one dependent and one independent variable. Mathematically shown as:

$$Y = \alpha + \beta X,$$

where

α is the constant

β is the parameter

Thus, this simple regression argues that the relationship between these variables is a straight line. If the relationship is exact (with no random influences) then it is rather easy to estimate the parameters a and b (slope and intercept of the line) (Fischer, 1980). However, in reality, there are random influences on the dependent variable, hence the relationship above can be more correctly presented as:

$$Y = \alpha + \beta X + \varepsilon$$

ε is the random influences (error term)

Therefore, by adding this error term, which represents the random influences, Fischer (1980) argues that this, in turn, produces different values for Y which diagrammatically form a scatter of points. However in practice, researchers rarely use simple regression analysis. Mostly used is multiple regression analysis.

A multiple regression model is used for the analysis of the relationship amongst a single dependent variable and independent variables (more than one) (Wei, 1994). The standard linear regression model can be presented mathematically as following:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_K X_K + \varepsilon$$

Y is the dependent variable

α is the constant

$\beta_1, \beta_2, \beta_3, \dots, \beta_K$ are the regression coefficients

$X_1, X_2, X_3, \dots, X_K$ are the independent variables

ε is the error term

Therefore, the mathematical representation above indicates the relationship, which is estimated by assuming linearity (Fischer, 1980). When the regression model uses time series data, the model becomes time series regression and is written as following:

$$Y = \alpha + \beta_1 X_{1,t} + \beta_2 X_{2,t} + \beta_3 X_{3,t} + \dots + \beta_K X_{K,t} + \varepsilon_t, \quad t: \text{ is the time variable of the data}$$

Multiple regression analysis considers the major independent variables that are believed to influence the dependent variable and the random disturbance term of other minor influences, which have not been considered through the variables (Fischer, 1980). Therefore, this analysis does not only provide the means to explore the systematic effects of the data but also determines how well a researcher has been able to extract these effects from the random effects that occur (Fischer, 1980).

The statistical significance (p-level) refers to the level of difference or relationship that is tested that would only occur by chance alone. The different level of significance is described by Rowntree (1991) as an identifier of the real difference

between the means of two samples. In the situation when the observed significance value is lower than 0.05 or 0.01, the null hypothesis is rejected. To be clear, the guidelines provided by Saunders *et al.*, (2007) are used in the analysis of the secondary data. More specifically, the $p\text{-level} \leq 0.05$ is accepted as a guideline when using the STATA package for numerical data analysis, this value has been used in much other academic research and has been proposed by many other types of researches (Saunders *et al.*, 2007; Hair, *et al.*, 2005).

Chance of Making	
Type I error	Type II error
Significance level at 0.05	
Increased	Decreased
Significance level at 0.01	
Decreased	Increased

Source: Saunders et al. (2007).

Figure 5.1: Statistical significance indicators

5.5 QUALITATIVE DATA COLLECTION AND ANALYSIS

Even though qualitative research has been seen in the past as a 'staple of some fields of social sciences', today it is regarded as a 'respectable and acceptable' method in all social research (Robson, 2002: 393). As the limitations of the quantitative methods have been recognised (assumptions of simple causal relationships), it is argued that the qualitative data might generate serendipitous findings and new integrations (Huberman and Miller, 1994). In light of this, below I am discussing the detailed methodological design of the documentary data collection and method of analysis employed in my research.

The qualitative part of my research begins with the documentary analysis of the official IMF reports regarding the Macedonian economy. Documentary analysis has been comprehended as a way 'to inform all types of evaluation' (Mathison, 2005). For multiple reasons, this analysis has been viewed as essential but not much work has been focused on associating this method of data collecting to evaluation (Matheson, 2005). It has been argued that documents are used in a way of achieving cross-validation of information to compare whether what people state is the same as their actions (Noor, 2008).

5.5.1 DOCUMENT DATA COLLECTION AND ANALYSIS

One of the first social researchers who focused on the importance of documents and texts in their analysis are Goode and Hatt (1952). They argue that as reports play a large role in social research, their content should be coded, screened and analysed. Additionally, Noor (2008) suggests that the use of the documents can be beneficial in a way for the researcher to prepare for the conduction of the interviews. These multiple qualitative techniques increase the degree of validity and reliability of the findings.

There are many advantages and disadvantages through the implementation of this method of data collection. Some of the benefits relate to the collection of new information, understanding the purpose, detecting the historical components or other retrospective details about the area of research and finally assisting in identifying the future data needed for the study (Forster and Sober, 1994; Hakim, 1987; Matheson,

2005). Additionally, documents seem more credible compared to other sources of data. This analysis saves time, is convenient and saves funds (provides information that would have to be gathered through other time consuming or costly methods) (Matheson, 2005). However, researchers should also be aware of the disadvantages of this approach. Awareness of the subjectivity of the documents, as information is displayed in a way suitable for the writer of the document, is one of the downside of the documents. The lack of representativeness of the documents, confidentiality issues, low quality and accuracy of record keeping, are the rest of the drawbacks of using reports (Forster and Sober, 1994; Hakim, 1987; Wattam, Parton and Thorpe, 1997). Therefore, academics argue that a ‘rigorous approach to the study of documentation’ is required (Glaser and Strauss, 1967). This systematic approach not only assists in detecting the content that supports our theory or hypotheses, but also draws on the segments that do not condone the theoretical foundation (Glaser and Strauss, 1967; Hill, 1993).

I initially collected secondary textual data on which I am conducting documentary analysis, as presented in more detail in Chapter 7. Through the collection of the data, I accessed virtual archives of the IMF and read through all the official reports, press releases and documents issued concerning Macedonia. As May (2001: 157) argues, documents are ‘sedimentations of social practices’ and they have the ability to inform the decisions which people, economies, markets and countries make. With the research focus on the IMF’s involvement in the Macedonian economy, I searched the sources of the official IMF reports virtually. I investigated the authenticity of the materials and identify the validity of the source. Furthermore, after

reading the documents multiple times I identified and chose the most useful and relevant documents for the specific study. About 2000 pages of printed material were analysed out of which the most valuable materials amounted to 1000 pages of official reports.

The documents enable me to critique and analyse the discourse that has been constructed. Two broader types of analysis exist, content and discourse. My research places an emphasis on the discourse analysis of the resources collected, which analyses the structure and representation of things and our knowledge of things (Prior, 2008a). Both types of analysis consider the documents as resource rather than topic. In other words, documents are a source of evidence or facts that can be used in the scientific theorising (Angrosino, 1989; Plummer, 2001; Prior, 2008b). This analysis of documents places an emphasis on the language and the discourses that are included or excluded amongst the positioning that is generated, maintained or negotiated by the author (Rapley, 2004). It also assists in understanding how the IMF has structured reforms and policies, how their implementation has been justified and how the results have been perceived (Hammersley and Atkinson, 2007).

According to Rapley (2004), the discourse analysis (DA) investigates the way an argument is introduced and developed, what additional information is not mentioned or left behind, and how various parts of texts are combined to generate meanings and assumptions. Through these documents, I focus on Rapley's (2004) argument, that the ability of the writer is to structure and organise the text by seeking a way to persuade the reader about the authority of its understanding of the issue. I argue that this is how the IMF hegemonic discourse has been created and has been

empowered. Therefore, this analysis places emphasis on the language and discourse that are included or excluded amongst the positioning that is generated, maintained and negotiation by the author (Rapley, 2004).

In the DA of the documents in Chapter 7, I have considered statements issued by the IMF for the Macedonian economy. More specifically, I explore how the IMF has portrayed the economic environment in small open economies such as Macedonia. I investigate how the IMF refers to the integration, operationalisation of the policies and, their impact on the Macedonian economy. This helps to identify how the Macedonian economy reacted to the economic policy programme. By drawing on examples from the literature presented in Chapter 2 regarding the implemented IMF policies in other countries, my argument is that the IMF perceives economies as simple systems, their policies as universal laws, and that they do not consider the variety of factors that impact upon the outcome of the policies they espouse (Stiglitz, 2010). The contextual background of Macedonia discussed in detail in Chapter 3, also assists the discussion and analysis of the documents introduced in Chapter 7, placing the papers in the chronological moment which relates to the occurrence of a particular event in time. This documentary analysis assisted in informing me about the IMF's activities in Macedonia, and coupled with the two pilot interviews conducted, also helped in better formulating my interview questions.

The primary focus of the DA is to determine and investigate the tools used through which 'meaning is produced, fixed, contested and subverted within the particular text' (Howarth, 2008:341). The principal method of analysis is textual which investigates 'how different versions of the world are produced through the use

of interpretive repertoires, claims to ‘stakes’ in an account, and constructions of knowing subjects’ (Silvermann, 1994:826). However, since complexity theory is the backbone of this thesis, this analysis does not regard the text only from a linguistic point of view assuming that they have been constructed in a closed system (Carter, 2008). Thus, as Bordieu (1992) argues, I analyse the texts by not only focusing on the act of speech/text but by positioning the speaker/author in the context and considering the author’s occupation, class, as well as situating the text chronologically (May, 1997). More specifically, through the DA, I intend to deviate the main focus away from the text itself and focus more on how the discourse used in this texts influences reality by creating channels of communication which authorise specific individuals to speak in particular ways (Wetherall and Potter, 1988). Therefore, the analytical framework used in this analysis involves reading the text by considering the symbols it includes, deconstructing and interpreting the text, as well as reconstructing it to explore how the text is developed and employed in practice (May, 1997).

By considering the complexity perspective discussed in Chapter 4, I analyse the text regarding the events that have taken place, exploring how the text presents them and how the reader can interpret them. Moreover, I consider whether the text omits to mention some significant moments or just takes the focus away from some central events. In other words, this analytical framework provides a way of determining the author’s intention to imprint his authority on the social world that is under consideration (Carter, 2008). Considering this, I believe that it is important for the researcher to contextualise this analysis by linking it to Chapter 3. According to Howarth (2008: 342), a narrow textual analysis of official documents provides one

aspect of a fully developed discourse analysis; ‘thick description of institutions, historical reconstructions of phenomena’ is needed as well.

The mechanics of the analysis that takes place in Chapter 7 consider the text from a discourse theorist’s point of view. In particular, my research takes into consideration the need of de-valuing and re-valuing the normative tone of the concept under research, which in turn influences the ‘acceptability’ of the particular concept (Howarth and Griggs, 2006:11). Therefore, I argue here that these rhetorical re-descriptions are omnipresent and the acceptance of this effect brings researchers closer to understanding the conceptual change that takes place (Howarth and Griggs, 2006). According to Skinner (2002:183), this technique is seeking a way ‘to persuade your audience to accept your new description and thereby to adopt a new attitude towards the action concerned’. Similarly to this, the DA identifies the rhetorical strategies employed by others to develop new discourses that lead to disruptions in general (Carter, 2008). Therefore, this method is used to understand the rhetorical re-descriptions of the IMF’s discourse used in relation to the Macedonian economy and how this discourse has generated and constructed the Macedonian economy as contingent, dependent and vulnerable (Carter, 2008).

5.5.2 INTERVIEW DATA COLLECTION AND ANALYSIS

According to Lewins and Silver (2007), interviews are qualitative tools, which have been initially developed by sociologists for the purpose of assisting the researcher in organising, reflecting and investigating data. According to Noor (2008),

semi-structured interviews give the researcher freedom to be flexible in the way he/she is approaching the participants and collecting the same data. Moreover, the semi-structured interview method has been chosen because of the exploratory nature of the research, which focuses initially on the object of study, its context and from this develops further into an analysis of the object from different aspects (Churchill, 1990). This method has been specifically chosen for this research because of the more 'rich descriptions and explanation of processes' it provides compared to the quantitative method (Robson, 2002). Having said this, the subsections following further explain the data collection process and the analytical methodology used to interpret the findings collected through the semi-structured interviews.

This part of the study assists in exploring the response of social actors considering the influence of the IMF on the Macedonian economy (Howarth *et al.*, 2000). The most appropriate method through which I explore the social reality by uncovering the significance of subjective interpretation is semi-structured interviews, which provide greater depth to the qualitative analysis (Howarth, 2008). This qualitative method was chosen after considering the suitability of semi-structured interviews for exploring perceptions regarding complex and sensitive issues. The ability to probe for more information and clarification of answers and the diversity of the sample group structured interviews were not appropriate (Denzin, 1989; Fontana and Frey, 1994).

The benefits of qualitative methods, namely interviews, have been analysed by many academics. According to Bryman (2008), this method provides the researcher with the opportunity to obtain an 'in-depth knowledge', and since it is useful for small

samples, this approach also provides a well-balanced interviewer-interviewee relationship and makes the analysis of unexpected results possible (Cohen, Manion and Morrison, 2011). However, as with any method, the semi-structured interviews have many disadvantages, which I am cognisant of and tried to avoid during my fieldwork and analysis. The unrepeatable nature, the 'lack of transparency', the inability to generalise the findings, the subjectivity of the researcher, the difficulty to maintain balance in the power relation between participant and researcher, and the time required to conduct interviews are some of the issues I have considered throughout my research (Bryman, 2008; Cohen *et al.*, 2011).

The participants in this study were contacted beforehand to arrange an interview and send an informed consent form. Data was collected in the summer of 2014. Considering that most of the interviews are conducted in Macedonian, English or Greek, authorised interpreters or translators were not necessary since I am a certified and authorised translator and interpreter for both Macedonian and Greek by the Ministry of Justice in Macedonia. A selective translation was conducted because it was a time-consuming process to transcribe and translate the entire interviews. I established initial contacts with some of the participants, such as investors in the banking sector, economists in public organisations and other academics and professionals operating in Macedonia. I interviewed a variety of actors in the Macedonian economy based on four different profile groups and conducted 16 semi-structured interviews (duration from 30min to 150min) at the participants' place of work, which assisted with providing a substantial and in-depth analysis of the results. As mentioned, the participants were categorised into four different groups: foreign

direct investors (banking sector), public organisations and associations, practitioners (Economists or Economic Journalists) and academics. Below I have provided a list of the participants in my study, stating their profile and code used.

The purpose of the qualitative data collection was to determine how actors perceive the role of the IMF during the economic policy programme in Macedonia, as well as how they perceive the occurrence of the Greek crisis and its influence on FDI in Macedonia. To determine the appropriate questions for the semi-structured qualitative analysis and to ensure that the research objectives are met through the questions, it was necessary to pilot them. Thus, the interview questions were pre-tested with a couple of practitioners and academics; this assisted in determining the time needed for the interviews, the appropriate wording of the questions and recognising the conditions that lead to satisfactory responses during the main study.

Table 5.3: Participants Profiles

Number of participants	Coding used	Profile of participants
5 interviewees	IPM, WBB, GOA, IZC	Institutions
3 Interviewees	SNB, KZB, EAB, NMB	Banking
4 Interviewees	KMG, KMI, KMB, ACM	Academics
4 Interviewees	STP, FRL, NIP, TON	Politics/Economists

These pilots also assisted in evaluating the participants' reaction to the particular sensitive questions and the likely duration of the interviews as well as the best location at which the actual semi-structured interviews should take place. Through

this qualitative data collection, I investigate the practitioners' perception of the economic system and the economic policy programme, but more specifically their perception of the IMF's involvement in the Macedonian economy.

This qualitative method is most suitable when rich information is required from a small number of participant representatives. Thus, this is an informal approach to investigating the sample population involved in the study by encouraging description and analysis of events considered important for the specific study (Denzin and Lincoln, 2005). The data involved in this study is in the form of text. The analysis conducted implements a coding process through which I identify the central themes that occur in the participants' responses and attach labels to these responses in order to code the significant themes. This process makes the analysis more transparent and straightforward. Further on, the related codes are merged into a single main code, leaving the study to investigate three main topics presented in the empirical qualitative Chapter 8. Through this process, I identified the main themes recurring through the discussions with participants, colour-coded these themes and merged them assisting me in a more thorough and rich interpretation of the data.

The analysis presented in Chapter 8 relates to the theoretical, philosophical background and to the literature review conducted in the previous chapters in order to support the analysis of the primary data. This analysis is also backed up by quoted statements from the discussions with the respondents, whose identities are coded to ensure confidentiality and to maintain the ethical considerations of the study. It is significant to underline that, independent of the documentary analysis discussed in Chapter 7, the semi-structured interview data analysis in Chapter 8 indicates the same

three themes as the documentary analysis. However, it is crucial to highlight that the responses of the respondents differ. As pointed out in Chapter 8, I find that the respondents' perception of the IMF's involvement in the Macedonian economy reflects the degree of involvement of the interviewees in the negotiation process with the IMF or their closeness to this institution. This led me to categorise the respondents in two categories – less critical respondents and more critical respondents to the IMF. In this way, I was able to perceive better the participants' subjectivity in their responses and to uncover the 'mechanisms' that lead these participants to recognise reality in one or the other way.

5.6 ETHICS ISSUES

When considering ethics, people think of rules we need to follow to distinguish between right and good or a code of professional conduct. Therefore, a common way of defining ethics is by the norms of behaviour that make a difference between acceptable and unacceptable (David and Resnik, 2011). In other words, ethics is a procedure that one follows when deciding how to tackle the analysis of complex problems or issues. According to David and Resnik (2011), there are few reasons why it is important to follow a certain ethical conduct, the main grounds of which are to adhere to a particular norm of producing objective research, avoidance of error and promoting the truth. Further on, trust, mutual understanding and collaborative work are also essential especially since many types of research are conducted through cooperation and coordination among many people (David and

Resnik, 2011). Therefore, the ethical norms help in reassuring that researchers can be held accountable to the public, for research misconduct, conflict of interest and animal and human protection. This leads to building integrity and trust with the public, which can assist in funding future research projects (David and Resnik, 2011).

It is crucial to highlight the importance of maintaining the integrity of the discipline and the primary aim of this thesis is to follow professional standards of my practice. My knowledge of social research methods assisted in developing my research skills and made me aware that data can be misrepresented in order to answer a defined research objective. So, I maintained accurate records in order to ensure that my findings are reliable and defensible. I carefully planned the information included in this thesis and did so by keeping in mind my integrity as a researcher and the reputation of the discipline. I have methodologically, theoretically and empirically justified the choices throughout my thesis. It is evident that the idea of ethics is value-oriented and open to various interpretations; I attempt to foresee ethical issues before the research was underway in order to resolve them promptly.

Even though complexity theory has not had a great influence on philosophy, Cilliers (2007) argues that philosophy owes complexity theory ‘a certain debt’. Cilliers (2005) views this debt in a way that complexity opened new doors for the general audience to debate particular philosophical issues. In the long term, this might result in new philosophical perspectives ‘outside the halls of philosophy departments’, reminding and provoking a broad audience that ‘all have to be philosophers, at least, some of the time’ (Cilliers, de Villiers, Roodt, 2002). This section highlights the issues that researchers are faced with when using complexity theory, especially

because it is context dependent and the assumptions taken into account are always open to error or types of paradox (Human and Cilliers, 2013). According to Morin's (2007) understanding of 'general' complexity theory, researchers can never have a full view of a complex system. Rather, researchers acknowledge that the economy analysed according to the complexity theory always considers a particular perspective (Human and Cilliers, 2013).

Moreover, the inexistence of 'neutral or objective framework' for the study of complexity theory involves making choices which 'cannot be reduced to calculation alone'; according to Cilliers (2010), this is imperative in the 'responsible engagement with complexity'. More specifically, when researchers use the complexity perspective in the analysis of the world or of an economy, they have to make choices when trying to describe certain phenomena (Woermann and Cilliers, 2012). In other words, since researchers do not have full awareness of complex things, Woermann and Cilliers (2012) argue that they often make choices, interpret and evaluate them based on subjective judgements. Consequently, Cilliers (2005) argues that complexity acknowledges the importance of 'values' and the position they take in this type of study.

This subjectivity in the utility of complexity theory introduces the 'ethical component' into the researchers' comprehension of complex events (Cilliers *et al.*, 2002; Preiser and Cilliers, 2010). The study of a complex economic system and finding ways to understand this system has to coincide with the words 'values' and 'ethics' and to give priority to the idea of 'ethics of complexity' (Cilliers, 2010). In line with this, the ethics in complexity should be regarded as a real engagement with

complex events; something that embodies not only the researcher's knowledge but the knowledge of themselves, instead regarding it as 'a normative system that dictates right action' (Woermann and Cilliers, 2012: 34). Therefore, I consider that the ethics of complexity are constituted in the structure of complexity thinking. Researchers should obtain a critical stand when studying complex events by recognising and engaging with the boundaries of knowledge (Preiser and Cilliers, 2010).

However, I must clarify that by arguing that complexity theory does not provide an objective framework, I do not intend to imply that any approach complies with complexity theory. On the contrary, any model or framework with no assumptions is considered 'subjective reality' and does not represent 'systematic knowledge' (Allen, 2000:93). Recognising this, researchers should apply their 'complexity reduction assumptions honestly' (Allen, 2000:94). This 'intellectual honesty' denotes modesty. In other words, researchers should be competent in undertaking imperative analysis (Woermann and Cilliers, 2012). However, by doing so, they should always be aware that by undertaking the groundwork, researchers are not providing solutions to complexity since with every choice that the researcher makes, a new field of possible after-effects arise (Woermann and Cilliers, 2012). Therefore, the primary aim of the utility of complexity theory should not be 'the objective pursuit of truth', but rather 'a process of working towards finding suitable strategies for dealing with complex phenomena' (Woermann and Cilliers, 2012: 35). Because of the facts that there is 'no final solution and that knowledge is turbulent', Morin (2007:21) suggests that researchers should bear a double conscience whilst using complexity theory; 'a conscience of itself and an ethical conscience'.

Finally, I would like to refer to the incompressibility of complex systems. In line with the previously mentioned, complex systems interact with everything that is surrounding them, either in a direct or indirect manner. According to Cilliers (1998), the concept of boundaries is a problematic issue. He argues that boundaries in the analysis are inferences of the researcher which allow researchers to make sense of the environment. Many debates can be undertaken around how researchers make implicit and explicit assumptions and impose boundaries on the analysis, but the principal goal of the discussion here is to relate the issue of boundaries to the incompressibility of complex systems (Cilliers, 1998). The incompressibility of complex systems can be understood through the idea that a model of a complex system should capture all the possible events and interactions of the system. Thus, the model should be at least as complex as the system itself (Richardson, Cilliers and Lissack, 2000). However, I recognise that one factor will always exist beyond the boundaries placed by the researcher that will have some influence in the long run on the system under study. The incompressibility of the model disagrees with this idea of a globally and permanently valid perspective or paradigm. This means that such a framework, which is used to describe the sub-system entirely (i.e. Macedonia) under study, is embedded in a larger complex system (i.e. Balkans or Europe) (Richardson *et al.*, 2000). Therefore, when investigating the Macedonian context I consider the more critical regional events occurring in the Balkans and Europe, which have affected the Macedonian economy. I do not intend to argue through this thesis that all the events are considered when analysing the Macedonian economy or that findings are true and definite.

This issue of incompressibility does not disregard the usefulness of the analysis altogether, nor does it try to argue that investigators should not analyse within the complexity realm. I highlighted this issue because of its importance when using complexity theory and to argue that scholars should be aware of the ‘provisionality of any perspective that might be utilised in underpinning an analysis of any problem’ (Richardson *et al.*, 2000). According to Richardson *et al.*, (2000), this leads to the ‘scientific humility’ of the researcher, which does not allow the researcher to consider his/her current understanding as true and definite, and that it is all that is possible. On the contrary, as complexity theory suggests, there is no ‘black and white answer’ but a dimension of probabilities which are context dependent and at the same time indicate the critical importance of the context under study (Richardson *et al.*, 2000). Having discussed the ethical issues that I as a researcher should keep in mind, the following subsection provides an insight of the reflexive account of the research conducted here.

5.6.1 RESEARCHER’S REFLEXIVITY

Many reflective and ethical issues should be considered in order to be able to, as a responsible researcher, reduce the risk of harm to which the participants, the community or even I might be exposed to. This section is structured to respond to issues that I as a researcher might have come across or matters that were considered to reduce the risk of participants during this research process.

This research interviews people from various backgrounds, including scholars, investors and practitioners as well as secondary data collected in the form of text (documents and reports) and numerical data (macroeconomic data). Thus, the collection of secondary data might be questioned since different methodologies might have been used and certain limitations have not been considered that might undermine the validity of this data. Considering this, many ethical issues have to be taken into consideration. The credibility of the data is a significant issue to be considered in the research process. Provided that a large part of the governmental statistical data in Macedonia are not fully updated and considering that census has not been undertaken since 2002, one poses a question to what extent the data are reliable as such to be used in a research project. Another limitation of the data set is that it covers only 23 years since the country's exit from the Yugoslav federation. However, the time scale of the data was not detrimental to the analysis; it provided substantial data points, which generated valid regression results. Considering the weak statistical systems in the country, I cross-checked the data collected from the National Bank of Macedonia with other institutions that collect the same data and determined the reliability of the data.

Considering the qualitative primary data collection, participants were provided with the details of the research project, its aim, the methods of data collection, duration of the project as well as the potential risks and benefits. I obtained written and verbal consent from all of the respondents²³. However, participants' interpretation

²³ The consent forms submitted to participants in the three different languages is provided in the appendix. Transcripts of the interviews conducted are provided upon request.

of the research project may differ to my own, thus, through this process of data collection, some ethical issues might occur.

One important point in the research process is the subjectivity of the participants due to their political involvement during the transition period. Some of the respondents involved in the market liberalisation process of Macedonia during the 1990s as Members of Parliament or the governing party, maintain a less critical position towards the IMF policy program. Thus, even though they are essential to the IMF's universal approach, they seem to approve of it by stating that this is what the IMF as an institution does. Therefore, participants involved in the negotiation processes with the IMF or interviewees that support that neo-liberal ideology are less critical of the Fund. However, the respondents who have never been directly involved in Macedonia's transition period in the 1990s tend to be more critical of the Fund's involvement in the liberalisation of the market.

Maxcy (2003) emphasises that a researcher is unable to understand fully their position since identities are changing continuously under the interactive research processes; thus, another relevant issue here is the power relations that exist during interviews. In the cases where I was interviewing academics, the power relations could be sensed more since respondents perceive me as just a student conducting some research. These power relations were also present during some of the interviews conducted in the international institutions, especially since my research directly critiques these institutions' ideology and neo-liberal views. I must admit that coming from a UK educational institution helped me to be regarded in a more respectful way by my respondents. Reflecting on the fieldwork in more detail I must reflect the

power issues while conducting the interviews. McCorkel and Myers (2003) argue that the dynamics of power influence the research at every stage; therefore, a certain amount of critical reflection and reflexivity is required on the researcher's part. Furthermore, usually the dynamics of power favour the researcher since I am the 'producer' of knowledge (Hughes, 2006). However, in some instances due to power relations, respondents were the ones leading the discussion and guiding it according to their will. I managed to pull back the debate toward the topics relevant to my research.

The ethnic background is another issue that I would like to reflect on, especially in the case where I was conducting interviews with Greek investors. When stating their opinion as either Greek investors or Macedonian economists/academics, I found that some of the respondents were not as helpful during the interviews due to the relations between Macedonia and Greece. I regard this as uncertainty in the respondents' perception of me as a researcher, the intentions which led me to conduct the particular research, what is the aim of my study and whether there is a political background to the discussion. Therefore, I was aware that any bias or uncertainty that might exist among the participants will be reflected in their answers to my questions as well.

Finally, there is the issue of self - identification or identification by others. Notions of anonymity and confidentiality are extensively occurring in the literature relating to ethical practice and social science research (Bryman, 2008; Denzin and Lincoln, 2005) and this is largely so that the privacy of participants is protected. Interview transcripts contain various hints indicating the personal details of the participant. Anonymity in this sense is crucial and at the same time difficult to

achieve. Having in mind that the research is undertaken in Macedonia, which is a small country with a limited number of Greek participants in my research, this might lead to ethical issues of confidentiality. Being aware of the harm that I might cause through self-identification of participants in the research or identification by others, the need for anonymity is crucial as well as high level of confidentiality. Through my research, I protect the privacy of participants by providing them with pseudonyms so that their identities remain unknown. Issues of risk related to safety, emotional well-being, privacy and misrepresentation were also considered through my research. While arranging interviews, participants chose the locations, which were neutral and accessible to them and we both agreed on times to fit in with our schedules. I sought permission before audio recording the interviews, this way I intended to make participants feel comfortable during the interview process. According to the University of Roehampton's ethical guidelines regarding the protection of data, I intend to password protect computer files and store data in a locked cabinet at the university for ten years after thesis submission (as specified by the university). Having mentioned the ethical issues that a researcher should have in mind in order to undertake rigorous and ethically moral research, I move towards the closing summary of this chapter.

5.7 CONCLUDING SUMMARY

Through many arguments highlighted by pronounced academics in both fields, this chapter discussed the epistemological and ontological implication of both

complexity theory and critical realism. By defining both the theory and the philosophical perspective employed in this research, I addressed the amalgam of both complexity and critical realism. This assists in providing the reader with a clear understanding of the way in which I am attempting to employ this theoretical positioning in my research. Moreover, in the same section, I presented the justifications of why I have chosen these two perspectives and in what way they both complement each other and help me answer my research questions.

This chapter presented a detailed methodological design of my study, again concerning the philosophical and theoretical arguments demonstrated. I highlight the importance of the mixed-method approach to my study by bringing in the related literature, which presents both the advantages and the drawbacks of this method. This chapter also provided the reader with a detailed explanation of the data collection process and the conducted fieldwork. My intention through this chapter was to present in detail how the methodological design fits in with my research objectives and the ethical sound research that I am conducting.

Having introduced the methodological, philosophical and theoretical underpinnings of this thesis, I move towards the actual analysis of the data. The following chapters focus on the empirical analysis; Chapter 6 presents the quantitative analysis of the secondary numerical data. This chapter assists in demonstrating, in a quantitative way, the extent to which traditional economic policies affect the economic growth of a system. Thus by using a regression analysis of macroeconomic data, I present the exploratory power of the quantitative models. The IMF reports and supporting documents, which have been analysed through the perspective of discourse

analysis, are shown in Chapter 7. This chapter assists in revealing the hegemonic ideas imposed by the IMF, masked by the notion of market reforms and growth. Thus, I aim to understand to what extent the IMF policy agenda shaped the Macedonian economy. Finally, I have undertaken critical analysis on the primary data collected through semi-structured interviews presented in Chapter 8. This chapter explores in detail the local perspective of the IMF's involvement in Macedonia. By considering the perceptions of academics and practitioners, I highlight the IMF's role in the Macedonian transition toward a market economy.

CHAPTER 6

THE ARDL MODEL AND ANALYSIS

6.1 INTRODUCTION

The previous chapter highlighted the detailed methodological design employed in this thesis along with the paradigmatic underpinnings. Before moving to the actual empirical analysis in this chapter, it is important to bring forward some of the arguments from the previous chapters which will better support my analysis here. Questions related to what determines the potential growth rate and to which reforms could increase growth should be central to deciding the country's policy agenda. These issues have been discussed in Chapter 2. In the context of the Macedonian economy, a relevant question is to what extent market reforms and economic policies can be considered as the major drivers of economic growth? Structural reforms related to the transition process since the 1990s, as well as macroeconomic adjustment to safeguard economic stability in recent years, as presented in Chapter 3, should have increased Macedonia's potential growth rate even more. Looking ahead, policymakers need to know what policies and reforms could increase Macedonia's growth further and, hence, lead to a faster income convergence upon the neighbouring countries and the EU.

As highlighted in Chapter 2, the transition from socialism to capitalism in Central East European (CEE) and South East European (SEE) economies was perceived by many scholars as a political, social and economic process (Bevan and Estrin, 2000). Despite the highlighted optimism considering the benefits from economic policies in transitional economies, most of the expectations were not realised. As presented in Chapter 3, transition economies have been perceived as an interesting area of research by many academics. This is the case mostly because of the IMF's remodelling prompted by the change of regime and the newly established business environment that has emerged through this movement toward a market economy (Bevan *et al.*, 2004). As a small open economy, Macedonia is sensitive to fluctuations in the international market and has suffered a contraction in GDP growth due to contagion and spill-over effects from external factors. The aim here is to investigate further the argument presented in the literature in Chapter 2, that the market liberalisation process and the openness of a transition economy lead to an increase in GDP and, therefore, economic growth.

Several studies presented in Chapter 2 have focused on SEE growth and have provided possible explanations why the SEE transition economies did not become the economic powerhouses they were expected to become. Many observers have attributed the low growth rate of SEE transition economies to its weak institutions. Despite these economies being open and growing, investment is relatively low compared to the rest of the CEE transition economies. Fiscal pressures due to a weak revenue performance, weighty debt service and high input costs put a strain on government spending while the political turbulences in the region serve as a

disincentive for the investors to invest in the private sector (Bocchi, 2008). While other transition economies in SEE have their share of similar institutional deficiencies, corruption and political instability are unique to the Macedonian context.

Macedonia's high dependency on the external environment and its long-standing constraints to growth- lack of adequate infrastructure, low investment, high unemployment and government weakness –still inhibit progression.

The objective of this chapter is twofold. The first is to test the traditional economists' views that liberalisation of the planned economy based on IMF's prescription will bring openness to the market and growth to the economy by increasing its GDP (presented in Chapter 2). As far as I know, this is the first attempt to estimate empirically the determinants of growth in Macedonia, which include more recent macroeconomic data and the use of a more developed method than a simple regression analysis. To the best of my knowledge, only a few empirical studies have been carried out to determine which explanatory variables signify Macedonia's economic growth. The second objective is to evaluate the explanatory power of the models and to recommend possible approaches to better explore and address the factors behind Macedonia's slower growth. In line with this and as highlighted in Chapter 5, I am using secondary quantitative data coupled with regression analysis to determine the effect and the explanatory power of macroeconomic variables on economic growth.

Section 6.2 presents the model implemented in this study along with the results of the regression analysis. Section 6.3 interprets, in more detail, the findings

from this analysis as well as critically evaluates the explanatory power of quantitative models. Finally, section 6.4 presents the concluding summary.

6.2 ECONOMIC GROWTH MODEL FOR MACEDONIA

While the structural change toward a market economy has been affecting the output of transition economies, the speed and the extent of the recovery of these economies is varying especially considering the effects of the recent crisis (Fischer and Sahay, 2000). Reflecting on the arguments in Chapter 2 with regards to the reform strategy, and the initial conditions and specificities of these economies, it has been argued that the macroeconomic policies and structural reforms (notably privatisation) have contributed to the growth recovery (Fischer and Sahay, 2000). This section assists in testing this argument from a quantitative perspective. Considering the theoretical aspect of the regression analysis presented in Chapter 5, this section provides justification of the macroeconomic determinants used in the model.

As discussed in Chapter 5, in order to make an appropriate robustness check of the coefficients, it is crucial to formulate a general model that encompasses the majority of the determinants of growth identified by the theory. This section makes use of the model employed by Daud *et al.* (2013), which uses time-series regression analysis of macroeconomic determinants of growth for the Malaysian economy. I am applying the same model in the case of the Macedonian economy. Thus, the model incorporates both determinants of macroeconomic policies and structural reforms. In

the case where some of the determinants used in the Daud *et al.* (2013) model are not measured or are not accessible for the Macedonian economy, I do not include them. This model has been chosen as the most appropriate according to two criteria, the analysis of a small open transitional economy and its GDP and the application of a time-series linear regression analysis.

Since, as discussed in Chapter 2, most of the previous studies that analyse growth in small Balkan economies refer to the GDP growth and use panel data or cross-country data, I had difficulty to detect a linear time-series growth model used in a small open Balkan country. Unfortunately, the limited research undertaken for these transitional countries has been again based on panel data and cross-country time series. Considering the regression analysis literature review, it is evident that panel data is not appropriate for this particular study since panel data uses quantitative data from a group of countries or different regions in a country. Having said this, it is relevant to present the model and the variables used in this analysis.

6.2.1 THE MODEL VARIABLES

The model applied in this study uses Villanueva's (2003) growth model as a point of reference. Through this model, it is argued that a country that intends to increase its economic growth will increase its savings, leading to more investments and increased economic growth. Daud *et al.* (2013) have used this model to explain the economic growth of the Malaysian economy by considering traditional macroeconomic variables and their effect on GDP:

$$GDP_t = a + b_1 FDI_t + b_2 POP_t + b_3 GOV_t + b_4 OPEN_t + b_5 ED_t + b_6 DSERV_t + e_t \quad (1)$$

GDP: Gross domestic product

FDI: Foreign direct investments

GOV: Government revenue

OPEN: Trade openness

POP: Population

ED: External Debt

DSERV: Debt service payment

SEC: Percentage of population enrolled in secondary school

INF: Inflation index

This model is applied in the Macedonian case by excluding one of the variables (debt service payment) since it's not available for Macedonia. Also, the variables GOV and ED are omitted since they are highly correlated with the other variables and INF and SEC are added as significant variables for the Macedonian economy since inflation and human capital are regarded as important determinants of growth:

$$GDP_t = a + b_1 FDI_t + b_2 POP_t + b_3 INF_t + b_4 OPEN_t + b_5 SEC_t + e_t \quad (2)$$

The GDP is defined as the monetary value of all the finished goods and services produced within a country's borders; it is measured every year on an annual

basis. FDI considers investments made by a business or entity based in one country, into a company or entity based in another country. POP and SEC measures the population and the percentage of the young population (under 18) enrolled in secondary school respectively. Finally, INF is the inflation index, OPEN represents the trade openness index of a country and is measured by the sum of exports and imports of the country's gross domestic product. The variables POP, SEC and FDI represent the changes in the rate of human capital and capital factor input in the production function (as presented by the endogenous growth theory discussed in Chapter 2). As presented in Chapter 2, fiscal austerity, monetary policy, market liberalisation and privatisation were the main milestones of the 'Washington Consensus' in the decades of the 1980s and 1990s (Stiglitz, 2002: 54). The rest of the variables (IMP, EXP through the OPEN variable and INF) account for the country-specific government policies implemented relating to fiscal, monetary policies and openness of the market. This increased openness of a market provides more possibilities to finance an increased external debt, raises the level of foreign reserves, increases return on investment and productivity, as well as increases the government revenue (Kose, Prasad and Terrones, 2003). As argued in Chapter 2, traditional economists perceive the tight fiscal policy as a stimulator of strong budget constraints, which encourage restructuring. This fact also stabilises the level of inflation indicating the determination of the government to carry out reforms.

6.2.2 AUTO REGRESSIVE DISTRIBUTED LAG (ARDL) MODEL

Considering the fact that ordinary least square²⁴ (OLS) and the Johansen test²⁵ are appropriate approaches if all variables are stationary considering $I(0)$ ²⁶ or $I(1)$ ²⁷ respectively for each, then researchers could not get reliable results by using these methods if one of the variables was non-stationary. Pesaran, Shin and Smith (2001) introduced the ARDL model to incorporate a mixture of $I(0)$ and $I(1)$ data. It involves a single equation set-up and different variables get assigned different lag-lengths when they enter the model. The reason for the choice of the ARDL model is that it is robust to small sample sizes (Mah, 2000; Tang and Nair, 2002). Therefore, the ARDL bound test employed here is used to model the data appropriately and extract both long and short run relationships. The ARDL methodology has many features reinforcing advantages over conventional co-integration analysis. Hence, the ARDL model allows for inferential statistics with no knowledge about the order of integration of the series examined in this study. In all cases, the ARDL t-statistics is larger than the upper bound critical values, which indicates the robustness of the values as suggested by Pesaran *et al.* (2001) and Narayan (2005).

²⁴ It is a method estimating the unknown parameters in a linear regression model, with the goal of minimising the differences between the observed responses in some arbitrary dataset and the responses predicted by the linear approximation of the data.

²⁵ Named after Søren Johansen, is a procedure for testing cointegration of several time series with first order cointegration. This test permits more than one cointegrating relationship so is more generally applicable.

²⁶ A time series is integrated of order 0. This implies that the auto covariance is decaying to 0 sufficiently quickly. This is a necessary, but not sufficient condition for a stationary process.

²⁷ A time series is integrated of order 1, meaning that two non-stationary time series can become stationary when differenced.

In this study, I use the ARDL or bounds testing approach to co-integration technique of Pesaran *et al.* (2001). This method has been used as an alternative co-integration test that examines the long-run relationships and dynamic interactions among the variables and as such addresses the above issues. This approach has several desirable statistical features. First, the co-integrating relationship can be estimated easily using OLS after selecting the lags order of the model. Second, it allows testing simultaneously for the long and short--run relationships between the variables in a time series model. Third, in contrast to the Engle-Granger and Johansen methods, this test procedure is valid irrespective of whether the variables are $I(0)$ or $I(1)$ or mutually co-integrated, which means that no unit root test is required. However, this test procedure will not be applicable if an $I(2)$ series exists in the model. Fourth, in spite of the possible presence of endogeneity, the ARDL model provides unbiased coefficients of explanatory variables along with valid t-statistics. Also the ARDL model corrects the omitted lagged variable bias (Inder, 1993). Furthermore, Jalil and Ma (2008) and Ang (2010) argue that the ARDL framework includes sufficient numbers of lags to capture the data generating process in a general to a specific modelling approach of Hendry (1995). Finally, this test is very efficient and consistent in small and finite sample sizes.

This is the first stage of the analysis which examines the levels at which the variables are stationary since the ARDL model does not allow stationarity at a level $I(2)$. By employing an Augmented Dickey-Fuller test (ADF), I test that none of the variables are $I(2)$ since such data will invalidate the methodology. However, before going into the ADF test, the lag order needs to be defined to see what lag is

appropriate for each variable in the model. This is done by using VARSOC table (Vector Auto Regressive Specification Order Criterion), which is available in STATA that can be quickly applied. The order of the lags in the ARDL model are selected using the appropriate selection criteria. These criteria are, Akaike Information Criterion (AIC), final prediction error (FPE), Schwarz's Bayesian information criterion (SBIC), the Hannan and Quinn information criterion (HQIC), log likelihood (LL) and likelihood ratio test (LR(p)). The star on each of the values indicates the optimal lag that needs to be selected for each variable. When more than one criterion brings forward a specification that satisfies the diagnostic testing, the model with the shortest lags is chosen. The testing is done by using the maximum lag length (4) for each variable since it has been argued that a selection of using shorter lags can lead to correlation issues, wrongly specified models and losing degrees of freedom (Pesaran *et al.*, 2001).

After this step, I check for stationarity of each variable at a level and first difference by using ADF test and focusing on the $Z(t)$ statistic. All of the mentioned tests are conducted using STATA and the results are presented in the appendix. Once the variables have been checked and shown that they are not $I(2)$, the analysis proceeds to the second stage, which is the analysis of the ARDL model. As presented in Daud *et al.*, (2013), the bound test is the Wald test (the F-statistic version of the bound testing approach) for the lagged level variables on the right-hand side of an Unrestricted Error Correction Model (UECM). The general ARDL model is:

$$y_t = \beta_0 + \beta_1 y_{t-1} + \dots + \beta_k y_{t-p} + \alpha_0 x_t + \alpha_1 x_{t-1} + \alpha_2 x_{t-2} + \dots + \alpha_q x_{t-q} + \varepsilon_t, \quad (3)$$

Where ε_t is a random ‘disturbance’ term assumed to be ‘well-behaved’ in the usual sense. In particular, it will be serially independent. From the form of the generic ARDL model given in equation (3) above, it is apparent that such models are characterised by having lags of the dependent variable, as well as lags (and perhaps the current value) of other variables, as the regressors. Relating to the equation (2) there are six variables that I am using: a dependent variable, y , and five other explanatory variables, x_1, x_2, x_3, x_4 and x_5 . More generally, there will be $(k + 1)$ variables - a dependent variable, and k other variables. In order to indicate why this ARDL model uses UECM, I formulate the model based on the conventional error correction model (ECM), which takes the form:

$$\Delta y_t = \beta_0 + \sum \beta_i \Delta y_{t-i} + \sum \gamma_j \Delta x_{1t-j} + \sum \delta_k \Delta x_{2t-k} + \sum \varepsilon_l \Delta x_{3t-l} + \sum \zeta_m \Delta x_{4t-m} + \sum \eta_n \Delta x_{5t-n} + \sum \iota_o \Delta x_{6t-o} + e_t \quad (4)$$

The e_t ‘error-correction term’ is the OLS residual series from the long-run “co-integrating regression”:

$$y_t = \alpha_0 + \alpha_1 x_{1t} + \alpha_2 x_{2t} + \dots + \alpha_6 x_{6t} + v_t \quad ; \quad (5)$$

$z_{t-1} = y_{t-1} - \alpha_0 - \alpha_1 x_{1t-1} - \alpha_2 x_{2t-1} - \dots - \alpha_6 x_{6t-1}$, where α are the OLS estimates of the α

The ARDL model with conditional ECM was introduced by Pesaran *et al*, (2001) which is almost like the traditional ECM with the difference that the error correction term (z_{t-1}) is replaced with the terms $y_{t-1}, x_{1t-1}, x_{2t-1}, \dots$

$$\Delta y_t = \beta_0 + \sum \beta_i \Delta y_{t-i} + \sum \gamma_j \Delta x_{1t-j} + \sum \delta_k \Delta x_{2t-k} + \theta_0 y_{t-1} + \theta_1 x_{1t-1} + \theta_2 x_{2t-1} + e_t ; \quad (6)$$

Or according to the variables used in the equation (2):

$$\begin{aligned} \Delta(\text{GDP})_t = & \beta_0 + \sum \beta_i \Delta \text{GDP}_{t-i} + \sum \gamma_j \Delta \text{FDI}_{t-j} + \sum \delta_k \Delta \text{POP}_{t-k} + \sum \varepsilon_l \Delta \text{SEC}_{t-l} + \sum \zeta_m \Delta \text{OPEN}_{t-m} \\ & + \sum \eta_n \text{INF}_{t-n} + \theta_0 \text{GDP}_{t-1} + \theta_1 \text{FDI}_{t-1} + \theta_2 \text{POP}_{t-1} + \theta_3 \text{SEC}_{t-1} + \theta_4 \text{OPEN}_{t-1} + \theta_5 \text{INF}_{t-1} + \\ & e_t \quad (6.1) \end{aligned}$$

This is why equation (6) is called an ‘unrestricted ECM’, or an ‘unconstrained ECM’ and according to Pesaran *et al.* (2001) a ‘conditional ECM’. The ranges of summation in the various terms in (6) are from 1 to p, 0 to q respectively. As explained previously the appropriate values for the maximum lags, p, q₁, q₂, q₃, q₄ and q₅ need to be determined.

The null hypothesis which is investigated here argues for the non-co-integrating relationship between the examined variables irrespective of whether the variables are stationary at different levels I(1) or I(0) ($H_0: \theta_1 = \theta_2 = \theta_3 = \theta_4 = \theta_5 = 0$). The alternative hypothesis is that H_0 is not true. If the value of the statistic from a Wald test is outside the range of the critical bounds (both lower and upper) then a conclusive inference can be made without considering the order of integration of the variables. Thus, if F- statistics > upper critical bound $\Rightarrow H_0$ is rejected, if F – statistics < lower critical bound $\Rightarrow H_0$ cannot be rejected. Otherwise, if the F-statistics falls in between the upper and the lower critical bound then a conclusive inference cannot be made.

Assuming that the bounds test leads to the conclusion of co-integration then a meaningful estimate of long-run equilibrium relationship between variables is

possible as well as estimating the usual ECM. However, the co-integration does not suggest that the coefficients are stable; if they are not stable, the results will lose their reliability. In order to avoid this, Pesaran and Pesaran (1997) recommend testing for long-run parameter stability by using the cumulative sum of recursive residuals (of square) CUSUM (CUSUMQ) test. These two tests can be used without the information of the structural break points and they test for the null hypothesis that all coefficients are stable (Brown, Durbin and Evans, 1975). The CUSUM detects systematic changes in the regression coefficients and the CUSUMQ uses the same procedure but focuses on situations when the departure from the constant of the regression coefficient is unexpected and sudden. Usually, the graph plot should stay in-between the 5 percent significance level which indicates the absence of any instability of the coefficients, suggesting that the parameters of the model do not experience any structural instability during the study period.

Therefore, I use the ARDL method to estimate the coefficients co-integrating relationship in the short-run and the long-run. The following section discusses in more detail the results and the diagnostic tests conducted in this analysis.

6.3 RESULTS AND DIAGNOSTIC TESTS

6.3.1 VARSOC

First I check the optimum lag order to see what lag is adopted in the ADF test for each variable being applied in the model. This is done using VARSOC Table

(Vector Auto Regressive Specification Order Criterion), which is available in STATA and can be quickly applied. The VARSOC function uses seven criteria, each one of which determines the optimum lag to be used.

The VARSOC function for GDP, shown in the appendix, indicates that one lag is an optimum choice. I do the same thing for all of the variables, as demonstrated in the appendix, and determine the optimum lag order for the variables included in the model. Thus as presented in the previous section, the optimum lags of ARDL (p,q1,q2,q4,q5) for the variables GDP,OPEN,POP,INF,FDI and SEC is ARDL (1,3,1,0,0,3).

6.3.2 AUGMENTED DICKEY-FULLER TEST

Even though testing of the variables is not essential, according to the ARDL model, it is necessary to undertake a unit root test in order to detect the right model that should be used. The Augmented Dickey-Fuller test (ADF) assists in determining whether the variables are stationary or they need to be differentiated at first level. In order to confirm that none of the variables are I (2), I use the ADF Test. I check whether the absolute value of the Z(t) statistic on the top of the table is higher than the absolute critical values at 1%, complying that the variable is I(0) using the level analysis. Similarly it has to be proven I (1) at first difference.

I regard all of the ADF variations in order to determine whether the trend and/or constant are significant. For example for the variable GDP the null hypothesis is that GDP has a unit root. The important things in the table shown in the appendix,

are the coefficient values and the t-statistics. The probability value indicates that if they are less than 0.05 they are highly significant. As mentioned previously there are three different variations of ADF. One considers the trend and the constant, one excludes the trend but not the constant and, finally, one excludes both the trend and the constant. The t-values of the coefficient in the table shown in the appendix, indicate that both constant and trend are not significant, meaning that there is no need to be included in this test. After conducting the ADF test (which includes the constant and the trend), I focus on the t-statistics values. The t-statistics of this coefficient need to be compared against the critical values of ADF. The critical values are shown in the regression table provided by STATA. The absolute value of the t-statistic in the case of the GDP variable for example, is below the absolute critical values. The probability of this test being wrong is 0.3408 as shown in the appendix tables, which is at significant level. Therefore, the null hypothesis cannot be rejected. I move towards analysing the other variations of the ADF test. Similarly, the same can be concluded from the next ADF tests done for the variable GDP, shown in the appendix. It can be concluded that by excluding the constant and trend from the ADF test it is clear that the null hypothesis can be rejected since the absolute values of the t-statistics are larger than the absolute critical values. Based on the absolute values of the t-statistics of the coefficient which is higher than the critical values indicated by ADF test, the variable does not have any unit root and it is stationary at level.

The standard ADF unit root test was exercised to check the order of integration of all variables. The results obtained are reported in Table 6.1. Based on the ADF test statistic, the variables rejected the null hypothesis. The values in Table

6.1 reject the null hypothesis of unit root according to McKinnon (1973) critical values shown in the appendix. The lag is selected according to the VARSOC function. The null hypothesis is rejected at 1% significance level according to the critical values in the table below. Considering the ADF test all the variables that will be used in the ARDL model have been tested for a unit root.

Table 6.1: ADF Test

ADF TESTS	AT LEVEL			AT FIRST DIFFERENCE		
	Constant and trend	Constant	No trend or constant	Constant and trend	Constant	No trend or constant
GDP (0)	-2.475	1.122	(4.071)*			
OPEN (3)	-1.976	-0.135	1.186	(-4.853)*(0)		
INF (0)	(-32.048)*	(-36.877)*	(-39.586)*			
POP (1)	-4.200	(-4.031)*	1.808			
FDI (0)	-3.240	-3.209	-1.575	(-5.653)*		
SEC (3)	-3.653	-2.909	0.253			(-2.812)*(0)

As highlighted in the table above the GDP variable is stationary according to the ADF test when the model does not incorporate the trend with no lags (since it proved to be non-stationary at lag one). The absolute value of the t-statistic (4.071) is higher than the absolute critical values according to the appropriate ADF table (1%: -2.66, 5%: -1.95, 10%: -1.6). The OPEN variable is stationary according to the ADF test when the model considers first difference including the trend and the constant of the variable in the test, with no lag (since again it proved to be non-stationary at lag level 3). The absolute value of the t-statistic (4.853) is higher than the absolute critical values according to the ADF tables (1%: 4.38, 5%: 3.6, 10%: 3.24). The POP variable is stationary, according to the ADF test, when the model considers first difference

with trend and constant of the variable with one lag. The absolute value of the t-statistic (4.031) is higher than the critical values according to the ADF tables (-3.750 at 1%, -3.00 at 5% and -2.63 at 10%). The FDI variable is stationary according to the ADF test when the model considers first difference including trend and constant of the variable with no lags. The absolute value of the t-statistic (5.653) is higher than the critical values according to the ADF tables (1%: -4.38, 5%: -3.6, 10%: -3.24). Finally, the variable SEC appears to be non-stationary according to the ADF test (no trend or constant) at first difference and no lag and the INF is stationary at level and no lag. Therefore, Table 6.1 demonstrates that half of the variables reject the hypothesis of the ADF test at level (GDP, INF and POP) and the rest of the variables reject the null hypothesis of the ADF test at the first difference (OPEN, FDI and SEC). Noticeably, the mixture of both $I(0)$ and $I(1)$ variables would not be possible to analyse under the Johansen procedure. This gives a real justification for using the bounds test approach, or ARDL model, which was proposed by Pesaran *et al.* (2001).

6.3.3 ARDL AND DIAGNOSTICS

The estimation of Equation (6.1) using the ARDL model is reported in the Appendix. Using Hendry's (1980) reference to the goodness of fit of the specification, that is, R-squared and adjusted R-squared, is 0.79 and 0.50 respectively. The estimated coefficient of the long-run relationship between GDP, OPEN, FDI, INF, SEC and POP are expected to be significant:

$$\log \text{GDP}_t = 3.639 + 0.008 \text{OPEN}_t + 0.015 \text{FDI}_t + 0.004 \text{POP}_t - 0.009 \text{INF}_t - 0.007 \text{SEC}_t$$

(7)

Equation (7) presents the correlation of the variables with GDP in the long run. From the table below it is clear that in the long run, the trade openness variable significantly affects the level of GDP (significance level 5%). In other words, the more open an economy to trade, the higher the GDP. Inflation has a negative effect on GDP in the long run but according to the Table 6.2, this variable is not statistically significant. The FDI variable indicates a positive relationship with the GDP, meaning that as FDI increases GDP will also increase. However, the ARDL model presented in the table below does not indicate a significant effect of FDI on GDP. The POP variable has a significant positive effect on GDP, according to the t-values in the table below (significance at level 1%). Lastly, the variable measuring the percentage of young population enrolled in secondary school has a positive but insignificant effect on GDP in the long run.

	Coefficient	P>|t|
lnGDP	-0.681	0.044
Long Run		
OPENL1	0.00782**	0.037
INFL1	-0.00988	0.804
POPL1	0.00376*	0.012
lnFDIL1	0.01472	0.328
SECL1	-0.0073	0.399
Short Run		
OPEND1	0.0054**	0.038
INFD1	-0.00063	0.819
POPD1	0.00641***	0.173
lnFDID1	0.00382	0.623
SECD1	0.0135***	0.127

Table 6.2: ARDL model coefficients

SK test (test for normality) = 6.95 [0.0310]; Breusch Godfrey LM = 2.235 [0.1349]***; Breusch-Pagan Heteroscedasticity Test = 4.24 [0.5149]; Ramsey RESET = 2.52 [0.1071]*****

(* statistically significant at 1%, ** statistically significant at 5% significance level, * statistically significant at 10% significance level)**

To ascertain the goodness of fit of the ARDL model, the diagnostic test and the stability test are conducted. The diagnostic test examines the serial correlation, normality and heteroscedasticity associated with the model (Breusch-Godfrey serial correlation LM test, Jacque-Bera normality test and Ramsey RESET specification test). The stability test is conducted by employing the cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares of recursive residuals (CUSUMSQ). The key regression statistics and the diagnostic test statistics are given below the Table 6.2. All the tests disclosed that the model has the aspirational econometric properties, the model's residuals are serially uncorrelated, normally distributed and homoscedastic. Hence, the results reported are valid for reliable interpretation. In more detail, the diagnostic test results show that the model passed the test for normality and serial dependence (tested with the Breusch-Godfrey LM test). The model also passed the Ramsey RESET test for misspecification, by not rejecting the null hypothesis. This test indicates that this model does not suffer from misspecification and no non-linear values can help to explain the response variable. However, the results indicate that there is heteroscedasticity. Since the time series data analysed are of a different order of integration, i.e., I (0) and I (1), it is natural to detect heteroscedasticity. The relatively low value of the adjusted R - square (0.50)

for the ARDL models indicates the low level of the overall goodness of the models, which makes it not as satisfactory as models with other higher R - square values. This can be explained by the limited data points included and the few variables used in the model.

Some past studies have used different techniques of cointegration. However, all of them pose certain limitations. The first limitation is that these techniques may not be appropriate when the sample size is too small (Pesaran *et al.*, 2001). For this study, I use the bounds testing cointegration approach developed by Pesaran *et al.* (2001), which is more robust for the small sample. The calculated F-statistics for the cointegration test is shown in the appendix. The value of the F-statistics for the model above (71.10) is higher than the upper bound critical value (3.516 – 4.781) at the 1% level of significance, using constant and no trend. This implies that the null hypothesis of no cointegration is rejected; therefore, there is a cointegrating relationship among the variables.

Finally, I have examined the stability of the long-run parameters together with the short-run movements for the equations. For the testing, I relied on the cumulative sum (CUSUM) and the cumulative sum squares (CUSUMSQ) tests proposed by Brown *et al.* (1975). The same procedure has been utilised by Pesaran and Pesaran (1997) and Daud et al., (2013) to test the stability of the short-run and long-run coefficients. The CUSUM and CUSUMQ plots show the blue line within the boundaries on both graphs shown in the appendix. The CUSUM and CUSUMSQ plotted against the critical bound of the 5 percent significance level indicate that the model is stable over time. Thus, the graphs (presented in the Appendix) indicate the

absence of any instability of the coefficients, suggesting that the parameters of the model do not experience any structural instability during the study period. In light of this analysis, it is significant to devote a rather substantial part of this chapter to the interpretation of the findings and their meanings to the overall argument of the thesis.

6.4 INTERPRETATION OF FINDINGS

As discussed in Chapter 2, a higher level of growth is achieved in countries that have more stable socio-political circumstances, lower inflation, more human capital, higher investment and balanced public revenue and expenditure. However, the set of economic policies that should be implemented in less developed countries to achieve the previously mentioned benefits, are not as straightforward, but are rather complex, debatable and controversial issues (Sokcevic and Stokovac, 2011).

Having conducted the above analysis it is necessary to interpret the analysed data appropriately, not only considering the results but also their meaning regarding the argument of this thesis. The primary aim of this chapter is to highlight the quantitative analysis of economic growth by analysing the effect of macroeconomic determinants of growth of GDP. As mentioned previously, economic growth is evidence of the increase of GDP in an economy. And my intention here is to highlight the level at which particular macroeconomic determinants affect the GDP in Macedonia. However, as with many types of methods, their usage discloses certain advantages and disadvantages. Even though this analysis appears straightforward and presents certain helpful results, as argued in Chapter 5, critical realism presently

allows me to uncover the mechanisms beyond these findings and demonstrate that such policies do not have solely direct cause and effect. Aside from interpreting the results of the previous section, I also intend to highlight the limitations of this analysis, by relating them to the constraints of the data used and the quantitative method itself. In any case, I must emphasise that my intention is not to argue the preference of one method over the other.

As argued previously, the benefits of using an ARDL model mandates the ability to investigate the effects of macroeconomic determinants both in the long and short run. The ARDL model entails the first part of the equation, which represents the short-run dynamics and the second part, which describes the long-run dynamics. The short run ARDL analysis indicates the significance of three variables – the openness of the economy towards foreign markets, the population of the country and the rate of secondary school enrolment. The other macroeconomic determinants do not indicate any statistically significant relationship with the GDP. This again can designate the importance of liberalisation policies in the Macedonian economy and opening up the market to trade with other countries.

Based on the ARDL analysis, in the long run, it can be concluded that only two out of the five variables included in the model are statistically significant in the long run; meaning that these two variables indicate a significant relationship with the GDP. The rest of the variables might have an influence on the GDP change in the long run, but this is not important based on the particular model. This can also be related to Sachs's (1996) argument in Chapter 2. He identifies that the sum of policies (referred to as an 'aggregate' index) are the ones which bring significant results,

whereas when these reforms are regarded separately, they show mixed results relating to the significance of the coefficients (Aziz and Wescott, 1997). This leads to the argument that the more structural and liberalisation reforms are implemented in a country the higher the increase of the growth performance (Berg *et al.*, 1999). However, in order to understand the effect of each variable on the GDP from the analysis above, I approach these variables separately but by presenting an ‘aggregated’ interpretation.

According to the results above, the openness of Macedonia (presented by the OPEN variable) has a significant positive impact on the GDP in the long-run. This long-run result is consistent with the theoretical discussion in Chapter 2 since one of the pillars of the economic reform programme suggested by the IMF is based on trade liberalisation and market openness. This result is also per the discussion in Chapter 3, where the literature relates the economic stagnation of Macedonia to the political turbulences at the neighbouring markets; arguing that Macedonia is dependent on trade. This significant positive relationship with the GDP demonstrates that as the country increases its trade openness with other economic partners, the GDP grows as well. In addition, the population has a positive and significant impact on overall GDP growth in the long run. Thus, the increase of the population in Macedonia affects positively the GDP primarily through the increase of human capital and labour. Based on the insight of this analysis, policies focusing on liberalising the market and opening the economy to trade with other countries have a positive effect on the Macedonian economic growth and with the increase of the population the labour rate

of Macedonia increases which affects the productivity function positively through the human capital.

However, the ARDL model indicates some insignificant variables. Inflation has a negative but insignificant impact on economic growth in the long run. It is expected that the inflation variable will have a negative sign indicating that as the inflation rates decrease in an economy the GDP rates increase. However, it is also expected this variable to be significant in such a model. Considering the discussion in Chapter 2 on the linear and significant relationship between macroeconomic stability and economic growth in transition economies (Fisher *et al.*, 1998), one explanation can be that the Macedonian economy has not benefitted from macroeconomic stability policies implemented through the economic reform programme. The critical literature discussed in Chapter 2, explains that the timeframe of the implemented monetary policy (which aim for macroeconomic stability) plays a crucial role, especially since these policies were carried out in a rapid way in transition countries (Stiglitz, 2002). This, further results into ineffective economic reforms which coupled with the weak institutional framework (an initial condition in most of the transition economies) led to underdevelopment of markets (Masten *et al.*, 2008; Prasad *et al.*, 2003; Stiglitz, 2002). Therefore, the insignificant impact of inflation on GDP can also be related to the way these policies have been implemented in the Macedonian economy considering the timeframe, the initial conditions of the country and the regional turbulences which might have limited the policies' impact on GDP.

In addition, the FDI variable is found to have a negative effect while being insignificant. This indicates the insignificant effect that foreign capital in the form of

direct investments has on GDP. I argue that this result can be related to the policies implemented to liberalise financially the Macedonian economy and to deregulate the banking sector in order to provide credits. The unsuccessful allocation of resources by banks together with the inexistence of favourable economic environment in the private sector diminish the overall economic growth in Macedonia due to the low investors' confidence in the market and consequently, a small foreign capital inflow in the form of investments. An additional factor for the lack of a flourishing private sector is the unavailability of credit in the money and capital market, which again is related to the low FDI. This limited credit in the capital market does not assist in increasing the entrepreneurship or the buyout of state-owned enterprises, especially during the privatisation period of state-owned enterprises. The literature in Chapter 2 further discusses this point and shows that other studies have proven that investment is not a significant determinant of growth in transition economies (Barro and Sala-i-Martin, 1995; De Broeck and Koen, 2000). This is related to the fact that most of the transition economies, which implement structural adjustment policies, have only a short period to recover from this transformation. Moreover, little growth can also be related to the inadequate and less than transparent privatisation process, as it is the case in some small transition economies, which leads to lower capital inflow (Roland, 2000; Winkler, 2001). Another aspect relating to the fact that the FDI variable has a negative and insignificant impact on GDP is the access to resources and the cultural mentality. Rizov (2001) argues in Chapter 2, that entrepreneurship which is regarded crucial for achieving economic growth in transition economies is usually obstructed by the cultural limitations, limited access to human and physical capital, external

financing and market imperfections. These issues reflect the character of the Macedonian transitional economy, which does not demonstrate attractiveness to foreign investors.

With regards to the secondary schooling rate, it has been argued that this has always been high in CEE countries (including SEE countries) because of the strong education policies implemented in the USSR (which Yugoslavia replicated) (Gould-Davies and Woods, 1999). Moreover, this further supports the argument in Chapter 2 that identifies the initial conditions of one country as significant determinants of growth. However, the critical literature suggests that even though these initial conditions are essential to growth, studies show that the initial conditions provide a partial explanation of growth in the CEE region (Berg *et al.*, 1999) Even though this influence is conflicting for different countries it disappears in the long term.

Furthermore, the SEC variable in this analysis indicates a negative and insignificant influence on GDP in the long run. The importance of this variable can be explained in more detail through the arguments of the endogenous growth theory, which argues that human capital and institutions disperse technical innovation and enhance living standards. The endogenous growth theory, presented in Chapter 2, further claims that due to education, research and development increases, there is increased knowledge and higher productivity of labour; hence, growth takes place. However, I found a negative and insignificant effect of the variable which measures the percentage of the population in secondary school; I argue that the policies which stimulate labour productivity that have taken place in the Macedonian economy should have been more effective. This might also be related to the turbulent character of the

Macedonian economy during the period that this analysis covers. Thus, due to political tensions, economic stagnation and high unemployment rates, the SEC variable has not been able to generate higher labour productivity, which would reflect in a greater increase in GDP.

However, I must underline that the variables that have proven not to have a significant impact on GDP through the above analysis, do not indicate that they need to be dismissed or that the model is wrong. I argue that the combination of the macroeconomic determinants used in the model above provide an insight of how the Macedonian GDP can be explained through the limited data available. The limitations of the data used in the model are discussed in more detail in the conclusion Chapter 9, but I touch open this issue in this chapter as well. It is significant to highlight that Macedonia being a small open economy, which has become independent just 25 years ago, does not provide researchers with plenty of data points and diversity of variables. More specifically, the data points used in this study cover a period of 21 years (covering the period 1993 - 2014). Thus, the data I have used for this analysis has proven to be limiting with regards to the richness of the findings. The data collected from official resources and the National Bank of Macedonia is also limited regarding the diversity of the available data. Some of the variables were not included in the model because simply they are not available for the Macedonian economy. In light of this, it is significant to provide a concluding summary of the conducted quantitative analysis and the discussed findings.

6.5 CONCLUDING SUMMARY

The quantitative analysis performed in this chapter assisted in understanding the effects of specific macroeconomic determinants of GDP growth and the exploratory powers of the specific quantitative model. By using the Pesaran *et al.*, (2001) ARDL model I provided an explanation of the extent to which traditional mainstream economic variables influence the economic growth in Macedonia. I took a pre-existing ARDL model used in another transitional small open economy in order to investigate to what extent the widely used economic determinants explain the economic growth in Macedonia. The issued critical reading of the literature on regression and quantitative analysis applied to account for the causality in small, open economies like Macedonia, argues that the models used are insufficient in this type of exploration. By shedding light on the powers of mainstream economic variables to explain economic growth, I aim to provide an understanding of the factors that constrain growth in the Macedonian context. These arguments assisted me in presenting the exploratory powers of the quantitative analysis and in relating this to a certain extent to the implemented IMF policies and their effectiveness in Macedonia.

The ARDL model used in this analysis assisted in determining the long run significant relationship between the economic determinants and GDP. The analysis demonstrates on one hand the way statistically significant variables affect GDP and also which variables are statistically insignificantly correlated with the GDP. This suggests ways of how the policies can be improved based on the findings from the analysis above. However, it must be considered that the model as any other has its

limitations; ones are deriving from the data used and the context for which it is implemented. I argue that this analysis represents a partial understanding of the effects on Macedonian GDP. Nevertheless, this analysed model provides an understanding of how the chosen macroeconomic determinants influence the GDP and that such quantitative analysis provides some understanding of the importance of economic reforms on growth in an economy.

Moreover, the fact that traditional quantitative models, which are used to explain particular relationships are limited, is also supported by the complexity theory argued in Chapter 4. The quantitative models that are used to investigate the effect of the economic policies on growth capture a more simplistic view of the relationships that exist in the real world (Dollar and Kraay, 2002). According to quantitative researchers, the economy is regarded as roughly linear, constantly subject to different shocks, fluctuating, but naturally returning to its equilibrium in the long-run (Blanchard, 2014). As it is commonly agreed, quantitative models try to fit a line through one-dimensional data set (a data set of only measurable variables), but, in reality, relations are far more than numerically measurable (Dollar and Kraay, 2002). In addition, the critical literature encompasses a variety of different and often mutually incompatible arguments and implications which do not only derive from the quantitative model itself but also from the exploratory powers of quantitative analysis when used in isolation. Considering the specific research, I consider the quantitative method, when used in isolation, as an inadequate and shallow method of analysis. I argue that a researcher should have a good grasp of the context (considering both the measurable

and the unmeasurable factors). This way it is easier to provide a better understanding of the factors that influence economic growth and GDP.

However, this cannot be done only by using quantitative models and regression analysis. In light of this, I provide the justification for the methodological design implemented in this thesis and described in Chapter 5. Additional methods that are not only based on a quantitative method of data collection and analysis in isolation but are used in combination with qualitative data collection and analysis are necessary. I argue that the mixed-method approach discussed in Chapter 5 is more applicable in comprehending the full complex picture of economic systems in which, not only economic but political, cultural and social indicators impact the growth of the economy.

The following chapter investigates the complexities of an economic system that have been disregarded by the mainstream policy programme. Thus by analysing the discourse of the IMF, I bring forward the Macedonian complexities that were disregarded by the IMF in its aim to impose the famous neo-liberal doctrine.

CHAPTER 7

DOCUMENTARY ANALYSIS OF IMF'S REPORTS

7.1 INTRODUCTION

As previously highlighted, Chapter 2 argued about the unsuccessful application of universal and over-conditional liberalisation policies, which led to further downturns and crises in other economies. Moreover, the IMF has been strongly criticised for deviating from its main goals (macroeconomic and monetary stability) and directing its focus towards a set of structural policies (corporate governance, trade policy, privatisation, poverty reduction) (Feldstein, 1998; Goldstein, 2003). However, Chapter 2 did not provide an understanding of the IMF's involvement in the Macedonian economy. The analysis in Chapter 6 attempted to analyse and test the IMF's impact on Macedonian economic growth through the implementation of a linear growth model, but as argued, the universal quantitative growth models alone, cannot present the whole picture of the economic reality in such a complex context. This chapter builds on the argument from Chapter 6 and uses the critical analysis provided in Chapter 2 and the contextual background in Chapter 3, in order to criticise the IMF's involvement in the Macedonian economy. I conduct this analysis by deconstructing the IMF's discourse, which derives from the official documents and reports, and by drawing on elements of complexity theory presented in

Chapter 4. Frezatti *et al.* (2014: 427) argue that the task of documentary analysis is the process of ‘deconstruction, interpretation and reconstruction’; this enables researchers to determine how ‘meaning is constructed, developed and employed’. Thus, the analysis in this chapter is deconstructing the discourse of the IMF, interpreting and analysing how this discourse has been reconstructed and contextualised in the Macedonian space.

Certain strands of mainstream economics (from the Keynes, Lewis and Minsky traditions) and institutions such as the IMF, argued that the structural adjustment programmes consider the context’s specificity through the case specific liberalisation reforms implemented or through the growth models containing country-specific variables as presented in Chapter 2 and 6. I argue that these approaches are still reductionist, applied as ‘best practices’ and rarely consider the contexts specificity. Therefore, by building on the arguments of the previous chapter, the aim of this chapter is to understand the IMF’s discourse and to what extent it considers the specificity of the broader context through the implementation of the reforms.

The change of the IMF’s rhetoric through the years and the flexibility the institution might have indicated towards countries in macroeconomic difficulties are argued by some of the less critical literature (Abdelal, 2007; Chweiroth, 2009). However, I must highlight that the IMF’s discourse has had minor shifts and has maintained a continuously stable and similar rhetoric, compared to the reports from the other countries in the period under investigation (the 90s and 2000s), based on my analysis. Moreover, the majority of the critical literature presented in Chapter 2 also indicates that the IMF’s rhetoric has not changed for the period when the institution

was actively operating in Macedonia. Therefore, the primary analysis in this chapter is focused on the period when the IMF was hands on with the transition of the Macedonian economy. The most crucial period of structural adjustment reform and loan providing was from 1992 to 2008.

Before leading into the in-depth documentary analysis, the next section (section 7.2) briefly presents a general interpretative textual analysis, in which the relevant elements of discourse and complexity theory are revealed and builds upon the complexity arguments discussed in Chapter 4 (Halperin and Heath, 2012). Section 7.3 reinforces the discourse analysis framework presented in Chapter 5 and provides a more detailed documentary analysis of the reports critically analysing the policies implemented in the Macedonian economy, by placing them in the appropriate chronological period and relating them to the crucial events that occurred in the Macedonian environment. Again, according to Halperin and Heath (2012), the role of this section is to understand the meaning that the text produces and reproduces by situating it in the broader context extensively discussed in Chapter 3. This section brings forward the most occurring themes from the IMF's reports, which I have regarded as important to this thesis. Finally, section 7.4 concludes this chapter and prepares the reader for the next chapter.

7.2 RECOGNISING COMPLEXITY THROUGH THE IMF REPORTS

As argued in Chapter 4, complexity theory is applied to assist in understanding the way complex systems are structured and should be managed. It should be

underlined that complexity theory does not provide a quick fix of the issues or a new formula that works better, but offers an approach which assists in investigating the complex reality in more detail.

Considering the first main element of complexity theory acknowledged in Chapter 4, I regard Macedonia as a small, open system which is not always in equilibrium. Due to the small size of the economy, it is dependent on the events that take place in other economies (neighboring economies, trade partners and major FDI investors). This argument has also been supported by the critical literature presented in Chapter 2. Rodrik *et al.* (1999) argue that varying economic and institutional circumstances indicate that policies might prove to be successful in one case but may not work in another. Having said this, the first theme that arises from the reading of the reports is the IMF's ignorance toward the character and specificity of the Macedonian economy. Complexity theory brings forward openness of the system and the multi-layered structure as one of its key features. Moreover, the open complex systems have the ability to memorise changes. Therefore, they have a history which, as argued by Cilliers (2000), is of great importance to the behaviour of the system. This openness and memory of the complex systems make the context essential to any policy-making, and any system cannot be analysed in isolation to its context (Cilliers, 2000).

Macedonia as a complex economic system, exchanges information with the environment and is made up of a vast number of elements, which interact with each other and cause rich propagated effects throughout the system (Cilliers, 2000). This ability of systems to interact with the environment and to operate in conditions far

from equilibrium makes each system more unique. These interactions cause many nonlinear effects and both positive and negative feedback loops, as explained in Chapter 4. Since the interactions are vibrant and dynamic, Cilliers (2000) and complexity theory argue that the behaviour of the system cannot be predicted from inspecting its components. This furthermore relates to the discussion made in Chapter 2 and 6 that policies are perceived as a sum of (aggregate index) and not as individual reforms. In this way, the sum of policies has larger effects than the sum of the separate effects of each single policy (Aziz and Wescott, 1997). Considering the discussion made in Chapter 3, the region where Macedonia is situated has gone through a turbulent period especially in the 90s and 2000s. The war in Yugoslavia, the ethnic conflicts, the trade embargo and sanctions, are some of the regional disturbances that have significantly influenced the Macedonian economy. Thus, due to this and the multi-layered structure of complex systems, I argue that the ‘one-size-fits-all’ approach is inappropriate and ineffective. As presented earlier, the structure of the complex systems along with their history, memory and openness, take a central role in the discussions of the first theme presented in this chapter. The discussion of the second theme of this chapter shows the importance and centrality of events in complex systems. Relating this to the characteristic of complex systems, I argue that these developments are of crucial significance for the Macedonian complex system since such a complex system interacts and exchanges information with its environment. This relates to the second theme which critiques the IMF’s failure to notice the major events which have taken place in the Macedonian region when suggesting a detailed policy programme.

Considering the previous complex elements and the presence of unpredictable and novel properties which may emerge in a complex system, the notion of ‘emergence’ is relevant to the discussion around the third theme. The emergent properties, as argued by Cilliers (2000), occur in a system unpredictably and influence the predicted outcome of the implemented policies. Taking into consideration the positive and negative feedback loops that are generated in systems by the reactions amongst the complex elements, the results of the successfully implemented policies cannot be predicted. Relating to this notion of emergence, the ability of systems to exchange information with the environment and the generation of positive and negative feedback loops, I highlight the third theme in this chapter through which I discuss the inappropriateness of the policy model implemented in the Macedonian economy. The universal set of reforms suggested by the IMF is considered inappropriate for the particular context and this last theme assists in better understanding in what way these practices have been ineffective and what kind of feedback loops they have generated.

Therefore, it is based on this argument that I lay the foundation of my critique of the IMF’s universality and its norms established on the grounds of traditional economics. The themes analysed here are closely connected to the main arguments of complexity theory presented in Chapter 4 and the contextual background information in Chapter 3. Consequently, they support the critique toward traditional economics; the IMF’s best practice model, presented in Chapter 2, also provides support for the critique of the linear models and quantitative analysis undertaken in Chapter 6.

7.3 THE IMF DISCOURSE DECONSTRUCTED

Since discourses consist of a combination of ideas, concepts and categories through which meaning is produced (Halperin and Heath, 2012), in this section I draw on the main ideas and concepts that the IMF brings forward through their official reports. At the same time, I use complexity theory in this analysis as a lens through which I analyse the documents by revealing the complexity elements mentioned in Chapter 4 and the previous section. I am relating to these components in order to study and deconstruct the implicit meaning of the discourse used by the IMF. Here I focus on three main themes that have occurred through the reports. The ignorance of the Macedonian context, the failure to consider outside factors with significant impact and the imposition of an inappropriate reform programme are the key issues discussed here.

THEME I: THE IGNORANCE OF THE MACEDONIAN CONTEXT

I begin by reflecting on one of the first arguments made in Chapter 2, which focuses on the time frame in which the liberalisation and structural adjustment reforms were implemented in developed economies compared to the ones applied in developing/transitional economies (Feldstein, 1998; Peet, 2009; Stiglitz, 2002). I argue that the imposition of rapid changes and reforms is one segment through which the IMF ideology and universality can be recognised. As argued in Chapter 2 by Stiglitz (2002), the rapid shock therapy implemented in transitional economies in the 1990s is

considered as a tool through which the IMF's hegemony is imposed on transitional economies. I argue that this, along with the oversimplification of the circumstances or the universal approach that the IMF has imposed on Macedonia, are some of the reasons that led to a troublesome transition. I relate this discussion to complexity theory, by considering the main characteristics of such complex systems. I argue that this neo-liberal ideology disregards the specificities of the context. As argued in Chapter 4, one of the aspects that make systems complex is their multi-layered structure (relating to the openness and complex structure of systems). Another aspect is the ability of systems to memorise and learn from events (which relates to systems having history and rarely being in equilibrium – constantly evolving). This section highlights the relevance of the first characteristic of complexity theory which argues that systems are complex, open, not always in equilibrium and that their history is important.

According to Stiglitz's (2002) argument in Chapter 2, countries in the developed world slowly moved towards market economies (the process began in 1944 and lasted till the 1970s), whereas that was not the case with the transitional economies. The evidence for this argument lays in the statements below:

'The primary challenge for economic policy in the period ahead is to stabilize the economy as a necessary precondition for the successful implementation of a much needed program of structural reform' (IMF, 1993/171:10).

From the statements above and below (IMF 1993/171; IMF 1995/175), it can be observed that the implementation of reforms and policies initially focused on ensuring macroeconomic stability but promptly moved to structural reforms which transformed the Macedonian economic environment (within a period of 3 years). Specifically, since its independence the Macedonian economy was subjected to macroeconomic stabilisation reforms, structural reforms and privatisation, as well as evaluation of the effectiveness of the implemented policies.

*‘...privatization entailed no more than a formal transfer of ownership rights to existing workers and worker-elected managers, suggesting that there has been no fundamental change in the financial conduct of these enterprises’
(IMF, 1995/175:13).*

The statements above not only indicate a forced liberalisation process in developing economies, but they relate to the hegemonic imposition of a set of rules that worked in other economies and are replicated in Macedonia without bringing the expected benefits. Moreover, these statements highlight the Fund’s ignorance of the Macedonian character and the initial conditions of the economy. As argued in Chapter 3, a number of macroeconomic vulnerabilities existed within the Macedonian economic system, in the immediate period of its independence. These vulnerabilities were mostly related to its political regime, planned economy and federal nature of the institutions. Through this documentary analysis, I found that this contextual background was not reflected in the IMF reports. Instead, the Fund follows a

predetermined set of ‘best practices’ taken from other case-studies. Concerning this, it is argued in Chapter 2, that through this universal approach, it is difficult for the Fund to prioritise its duties and clearly determine the cause-effect relationship amongst the reforms implemented (Peet, 2009). The usual rhetoric of traditional policy-makers can be observed through the IMF’s reports, which simplifies the effects of the implemented reforms and rarely mentions the indirect, non-linear effects that might have been induced. Relating this to complexity theory and Connolly’s work presented by Coombs and Williams (2013) discussed in Chapter 4, the economic system is considered as open and rarely in equilibrium, since they have a multi-stratified structure. The previous critique of the IMF’s universality aligns with Cilliers (2000) and his arguments that no system can be understood independently of its context and this should lead to fundamental changes in the way an institution is familiarised with the system. I argue that the IMF, by supporting the neo-liberal doctrine, does not consider the interconnectivity and contingency that exists in every economy, and the policies implemented usually are expected to have a direct, linear and straightforward effect. I argue that the IMF’s ignorance of the context’s uniqueness is another way through which the IMF imposes its ideology in small economies. This approach of the Fund is critiqued by Cilliers (2000) who argues that statements such as ‘mission’ or ‘vision’ are usually deterministic and used to define the borders of the system, which when taken too literally are detrimental to the system. Therefore, the second statement presented above outlines the outcome of this orthodox approach. It characterises the privatisation process as ‘formal transfer’ rather than a ‘fundamental change in the financial conduct of these enterprises’ (IMF, 1995/175: 13). In line with this, Cilliers

(2000) highlights the importance of the context according to complexity theory. He argues that the context's history is relevant and that the outcomes of certain policies cannot be predicted with clarity. The expected result of the privatisation implemented according to the IMF's suggestion did not provide 'fundamental change' as expected. This again relates to the previous argument considering the importance of the context's structure and the individuality of the system, which can be recognised through the small interactions that take place and the fact that systems learn and have memory.

Relating to this, the critique made in Chapter 6 indicates something similar. By considering Macedonia's political, economic and cultural circumstances after the country's independence, it should have been clear that a forced privatisation process would have resulted in a simple 'transfer' rather than a 'fundamental change' (IMF 1995/175). Having said this, Rodrik *et al.*, (1999) through their arguments presented in Chapter 2, reflect on the 'one-size-fits-all' approach to critique this issue of universality. Stiglitz (2002) states that certain policies cannot be re-applied in different contexts because they vary in terms of economic and institutional development, and derive from a different regime or are subject to transition. As presented in Chapter 3, Macedonia was not only becoming independent but also for the first time was establishing new, market-based institutions. Thus, Macedonia had no monetary independence until 1992, suffered from inadequate infrastructure, poor institutionalisation, enormous inflationary pressures in 1993 (608.4%) and had no mint and stock exchange until 1995 (Bacanovic and Jovanoca, 2001; Micevska *et al.*, 2002). However, policy measures were suggested based on the standard IMF's

prescriptions (tight monetary policy, bank rehabilitation and structural reforms). In order to avoid ‘hyperinflation’ and ‘to prevent the elimination of selective credits leading to a liquidity crisis in banks...’, ‘tight monetary policy’ was required and rehabilitation of ‘the banking system’ (IMF, 1993/171). Additionally, ‘strong wage control...to prevent output losses’ and ‘public sector recourse to the banking system needed to be avoided’ (IMF, 1993/171: 11). Along the lines of traditional economics, the outcome of these policies is predicted as a simple cause and effect. These suggestions again did not take into consideration the specificities of the context, leading to the conclusion that:

‘...a significant recovery was unlikely in 1994, without improved access to traditional markets and transshipment routes.’ (IMF, 1994/4: 3)

This statement can be related to the main elements of complexity theory and the idea that open systems are multi-layered in which various non-linear interactions take place (Coombs and Williams, 2013). According to Connolly’s arguments discussed in Coombs and Williams’s paper (2013), each of these layers provides a way to avoid the limitations that traditional economics impose on conceptualising an event at a higher ‘resolution’ of reality. Thus, small causes might have significant effects and the magnitude of the outcomes is determined by the context and the history of the system (Cilliers, 2000). Therefore, small details in various layers of the system’s structure, although insignificant to the economic policy implemented, may change everything.

Reflecting on the previous discussions regarding the importance of considering the context as an integrated entity in its environment, the statement below presents an ideological discourse through which the institution is suggesting a standardised set of reforms to be implemented in Macedonia:

‘The FYRM²⁸ is presently confronted with acute macroeconomic imbalances that have an important part of their origins in the political crisis in the region. The primary challenge for economic policy in the period ahead is to stabilize the economy as a necessary precondition for the successful implementation of a much needed program of structural reform’ (IMF, 1993/171:10).

Considering Cilliers’ (1998) argument and complexity theory discussed in Chapter 4, I agree that the macroeconomic imbalances might be connected to the regional political crisis. However, it is unclear how it is possible for these ‘acute macroeconomic imbalances’, which originate externally to a large extent from the ongoing ‘political crisis in the region’, to be resolved by a domestic economic policy? It seems contradictory to expect that the domestic economic policy can stabilise the economy whilst a political regional crisis is taking place. It is worth mentioning that in the period when that particular report was written (1993), Macedonia was experiencing many turbulences referred to in Chapter 3 and analysed in more detail in the following section. More specifically, Macedonia had lost its old trade partners in Yugoslavia and was facing political disputes with Greece, which affected the

²⁸Former Yugoslav Republic of Macedonia (FYRM)

country's international recognition and ability to take advantage of Greece's Thessaloniki port. Bulgaria's economic recession and struggle with the implementation of market reforms and Albania's first moves away from communism towards democracy were some of the other political instabilities that the rest of Macedonia's neighbours were experiencing. This had further constrained Macedonia's internal stability and economic development, as the country was not able to develop economic and trade relations with other regional countries.

Aside from the neo-liberal hegemonic position where the IMF is using a 'one-size-fits-all' approach to the implementation of a standardised set of reforms in the Macedonian economy, the IMF's discourse also uses the rhetoric of blame (also discussed in complexity theory) in order to impose its planned policy programme. The reports highlight the institution's avoidance to take responsibility for the unsuccessful reforms; rather it blames the client-country's circumstances for the unsuccessful effect of the implemented programme. An example for this can be noticed in the statement below:

'No significant recovery in export performance is expected in near term, owing to the perception of FYRM's increased country risk and the economic slowdown in FYRM's main trading partners' (IMF, 2002/56:16)

Even though it clearly highlights the Macedonian specificity and regional turbulences by referring to them as 'increased country risk' and the 'economic slowdown in FYRM's key trading partners', the IMF argues that due to these circumstances the

policies implemented did not achieve the expected ‘significant recovery’. Thus, the IMF is shifting the responsibility of the failed policies towards the client-country’s circumstances, and by doing so, in a sense, it is blaming the Macedonian authorities for the unsuccessful policies. This ability of the IMF to avoid responsibility for unpopular decisions relates again to aspects of complexity theory argued by Cilliers (2000). Concerning this, the statement below is another example in which the IMF uses discourse through which it is redirecting the blame for the ineffective policies:

‘While the direct impact of the turmoil on Macedonia’s financial sector has been limited, the indirect impact is growing. Potentially lower FDI and portfolio inflows (due to tighter international credit markets) and weaker remittances (driven by lower world growth) could create additional balance of payments pressures’ (IMF, 2008/239: 26).

The Fund highlights the positive effect of the reforms implemented, but it also indicates further steps which are needed to deal with the occurring indirect effects. Thus, even though appropriate policies were employed to limit ‘the direct impact of the turmoil on Macedonia’s financial sector’, other factors also influence it. Such factors were the ‘lower FDI and portfolio inflows’ and ‘weaker remittances’, which are connected to ‘lower world growth’ (IMF, 2008/239: 26). However, the question which comes to mind is why have these policies avoided taking into consideration both the direct and indirect effects that might have occurred in the first place? Moreover, is it the case the Macedonia’s level of development is the reason for the

‘lower FDI and portfolio inflows’ and ‘the weaker remittances’? I argue that this discourse is used to avoid the responsibilities for the wrongly implemented policies which generate an unfavourable environment for new capital flow. I highlight that the IMF is trying to avoid responsibility for the insignificant result of the implemented policies, by blaming the failed policies on outside factors. According to Cilliers (2000) it is argued that complex systems cannot thrive under excessive central control, rather this control should be distributed throughout the system. In reality, what happens is, when a popular decision is made in a system, organisations tend to own it and the unpopular decision tends to be distributed (Cilliers, 2000). The discourse in this statement shows similar patterns; the IMF distributes the unpopular decision through the system - shifts the responsibility to the Macedonian authorities, outside factors such as ‘low world growth’ and ‘tight international credit markets’. Moreover, in the situation where a popular decision is made, the IMF tends to own this decision. I argue that this is the way that the institution builds its trustworthiness which generates complete reassurance to the client-countries and world wide of its successful policies.

Despite this neo-liberal rhetoric of imposition, this trustworthiness that the IMF demonstrates has influenced the Macedonian authorities to obediently accept and implement the suggested set of reforms without bringing into question the economic and socio-political repercussions on the general stability of the country. As observed by the statements below, the authorities view the IMF policies as ‘key prerequisites for a successful reorientation toward new markets’.

‘The authorities acknowledged that lack of fundamental structural reforms had been the root cause of the problems of high inflation and economic stagnation characteristic of the former SFRY²⁹ ...’ (IMF, 1993/171: 8)

‘In this respect, they (the authorities) noted that a liberal trade regime and a flexible exchange rate policy were key prerequisites for a successful reorientation towards new markets.’ (IMF, 1993/171: 9)

Furthermore, the Macedonian authorities by following the IMF’s approach knowingly or unknowingly disregard the importance of the context’s socio-political background and that this approach might have counter-productive effects on the expected outcomes. One explanation for this kind of behaviour might be Macedonia’s trust in the IMF’s expert knowledge and the potential benefits that this apparent ‘fruitful’ collaboration might bring for Macedonia (such as foreign capital and investments). Second explanation might relate to the fact that any disagreement with the Fund, due to over conditionality, would lead to the cessation of financial assistance, loss of confidence of outside investors and foreign capital outflow.

In light of the arguments above I highlighted the IMF’s diagnostics problems which analyse the context in a unifying and simplistic manner, rather than recognising the complexity culture. This section sheds light to the neglected specificities of the Macedonian context and the IMF’s suggestion of a universal policy programme for the Macedonian transition from a planned to an open economy. I argue that the

²⁹Socialist Federal Republic of Yugoslavia (SFRY)

Macedonian character was deliberately neglected for the IMF to be able to impose the neo-liberal doctrine that has been imposed in other countries. However, I must underline that this is one segment of the IMF's imposition of universal 'best practices'. The Fund's ignorance of the regional events needs to be also noted. The following section discusses the regional turbulences as a 'domino effect' of the struggling economic conditions in Macedonia. I argue that '*the particularly adverse impact that the UN³⁰ sanctions against the Federal Republic of Yugoslavia³¹ were having on the FYRM*' should have been taken into consideration and how this has affected the further developments in the Macedonian economy (IMF, 1994/4: 9). This relates to the major regional events that have taken place in the Balkans and that have affected the Macedonian policy agenda, as argued in Chapter 3.

THEME II: FAILURE TO NOTICE SIGNIFICANT EVENTS

This section critiques the IMF from another point of view than the one analysed previously. I argue in this section that the Fund does not consider the major events that take place in the Balkan region during the transition period of Macedonia. Considering the above-mentioned openness of systems, the elements of the system interact with the environment and exchange information (Simon, 1996). Due to this, I argue that the events (such as the Greek Embargo and the Yugoslav war as a

³⁰United Nations (UN)

³¹The republics of Serbia and Montenegro together established a federation in 1992 as the Federal Republic of Yugoslavia

predecessor to the Kosovo crisis presented in Chapter 3) as highlighted in Chapter 4, take a central position in the application of complexity theory and have significantly affected the Macedonian economic system. With this in mind, I highlight the importance of these events to the Macedonian economic development and present the specific ways that these events have affected the transition of Macedonia.

Many reports highlight the contradictory nature of the IMF's discourse. The Fund's intention to forecast future policy outcomes is not valid when external political factors are destabilising the economic progress of the country. Even though the IMF considers the 'increased country risk and the slowdown in the world economy', the projections of the Macedonian exports and imports in volatile conditions (during an ethnic conflict in the country in 2001) are misleading (IMF, 2001/213). I argue that such projections might be reversed in the case of another event off-setting the country's risk, especially since many events had already destabilised the country (since 1993). When relating to the theoretical foundation of this thesis, it is important that the client-country's complexity is considered and the system's ability to exchange information with its environment (Cilliers, 2000). Instead of understanding the history of this complex Macedonian context, the IMF states that 'the ongoing effects of the regional trade shocks can only be overcome by maintaining an open and liberal trade regime' (IMF, 1993/171:12). It is unclear how a regional crisis and closure of the transshipment routes and neighbouring markets can be resolved by maintaining an 'open and liberal trade regime' since there is no one to trade with. It is here that I critique the ignorance of the IMF toward the client-country's regional developments

and the institution's choice to impose neo-liberal universal policies through its hegemonic discourse.

In line with the previous argument, on one hand, these regional turbulences also diminished the benefits from the policies implemented. The Greek embargo during the period 1994-1995 had significantly influenced the Macedonian economic stability as illustrated in Chapter 3. The economy at that time was far from 'sustainable' to be 'accompanied by broad-based reforms centred around privatisation and rehabilitation' (IMF, 1994/4:1). With total disregard of this, the IMF executive board (through the report issued in April 1994) concluded that the right path towards economic stability is a 'much tighter monetary policy and restoration of budget discipline' conditioned by the implementation of 'broad-based reforms...around privatisation and bank rehabilitation' (IMF, 1994/4:1). This is another example of the well-known neo-liberal rhetoric following the same line of argument. The main objectives and the policy design were focused on decreasing the inflation rates as a starting point for the 'comprehensive structural reform' programme. In line with Stiglitz's (2002) argument cited in Chapter 2, the IMF had never established the 'cause-effect relationship', thus by proposing a general policy prescription the Fund simplified the individual situation of each country. Therefore, in the Macedonian case, the IMF never clearly comprehended the reason for the high inflation rates (unstable domestic and regional political situation, inexistent monetary and fiscal mechanisms to assist in the movement toward a market economy, old habits from the Yugoslav planned economy). According to complexity theory, I argue that the IMF has been considering the Macedonian context in isolation from the regional events. Thus, the

IMF not only does not recognise the context's history and disregards the importance and centrality of the events, argued by complexity theory, but it also overlooks the ability of systems to exchange information with the environment (Cilliers, 2000). This ignorance of the complex nature of the Macedonian economy results in inefficiently implemented policies which generate negative feedback loops and present a false reality, which is later on forecasted by the IMF.

On the other hand, even though the Macedonian authorities agreed that the 'lack of fundamental structural reforms' can be considered as the central reason for the high inflation and economic stagnation, they also argued that these policies did not stabilise the economic situation in Macedonia. Since the accessibility to foreign markets was crucial for Macedonia and considering the country's multi-layered complex structure discussed in the previous section, this economic blockade affected different layers of the country. Aside from the economic impact that this embargo had on Macedonia by obstructing the efficient implementation of the policies, it is important here to also relate to the socio-cultural and political impacts that are mentioned in Chapter 3. More specifically, the bilateral relations between the two countries were frozen, the process of international recognition of Macedonia was delayed and the Macedonian society as a whole was set back. Here lays the critical reason why in such complex systems one cannot only rely on general policies. I argue that it is vital to clearly detect the real 'cause and effect' of the imposed policies by considering the system's history, the effect that the environment has on the system through the exchange information and its multi-layered structure (Coombs and Williams, 2013). The Greek embargo lasted for 18 months. Even though it was argued

by the Macedonian authorities that the ‘restoration of the southern trans-shipment’ will bring ‘improvement’, the Greek embargo was rarely mentioned by the IMF as a cause or an external factor for the slow economic growth of the Macedonian economy (IMF, 1995/175:9). At that period, Greece was one of the most cost-efficient options for Macedonia’s accessibility to EU markets and other foreign markets. The authorities argued for the immediate restoring of the transshipment routes explaining that aside from ‘the policies and structural reforms that should be implemented’ effectively in the Macedonian economy, ‘it is of great importance for Macedonia to trade with other countries’ (IMF, 1995/175:9).

This neo-liberal rhetoric can also be critiqued from a complexity perspective for disregarding the events and their central role in the multi-layered structure systems as well as the components’ ability to interact and exchange information with the environment (Cilliers, 2000). Having said this, the major events that took place in Macedonian history (presented in Chapter 3) provide an insight of the extent to which these events proved to be harmful to the Macedonian economy. The liberal trade regime and flexible exchange rates may be considered as ‘prerequisites for a reorientation towards new markets’, but taking into consideration the UN sanctions, the IMF could not argue that this ‘reorientation’ would be ‘successful’ (IMF, 1993/171: 9). These sanctions led to the loss of markets and transshipment routes in the former Yugoslav Republics. Furthermore, these sanctions forced the country to find costly, alternative routes, ‘including very rudimentary East-West links’ due to the underdevelopment and recession in Albania and Bulgaria respectively (IMF, 1994/4: 9). Turbulences such as the closure of neighbouring markets had a multiplied effect

on Macedonia due to the ability of the system's complex characteristics underlined beforehand. The events generated by the Greek embargo, Yugoslav war and UN sanctions had long-term social, political and economic disadvantages which made the Macedonian transition process even more challenging.

As discussed in Chapter 4 events take a central position in the application of complexity theory. According to Cilliers (2000), events emerge in a system in an entirely unexpected way – but they should not be suppressed or ignored. Thus, another significant event that had altered the Macedonian economy and continues to affect it today was the Yugoslav war. This development, preceded and to some extent initiated the Kosovo crisis that took place in the period 1998-1999 and the Albanian conflict that occurred in the northern part of Macedonia in 2001 (see the fuller discussion in Chapter 3). According to the analysis of the IMF reports, the period before the occurrence of the Kosovo crisis can be characterised as 'generally strong' in terms of GDP growth, inflation and foreign exchange rates, but the policy implementation did not prove to be productive:

'...fiscal policy was eased; wages in the enterprise sector rose markedly; and structural reforms stalled...(the weakening of external markets) led to a slowdown in industrial production and exports.' (IMF report, EBS 99/134: 3)

This statement is a further proof of the IMF's ignorance of regional political turbulence which generated economic slowdown in Macedonia. The Yugoslav war that happened at the beginning of the 90s should have been considered when the

IMF's policy planning took place. Even if the Kosovo crisis in 1999 and the Ethnic conflict in Macedonia in 2001 could not have been predicted by the IMF, the spillover of the Yugoslav wars into Macedonia should have been taken in consideration. Especially, since it was a part of the key debates amongst the critical political thinkers and the Macedonian media. In relation to this, the IMF reports had highlighted the additional strains on the Macedonian budget associated with 'the low revenue in the beginning of 1997 and expenditures relating to the intensified police defence on the border with Albania' (IMF, 1997/37: 3).

The adverse effects of this crisis mentioned in the IMF reports are the high economic costs of the '260.000 refugees living in FYRM'. More importantly, this crisis led to a disruption of trading relations with the Federal Republic of Yugoslavia and other trade partners because of the closure of the north transshipment route (IMF, 1999/134:3). Thus, the trade disruption brought more disadvantages, such as 'erosion of investors' confidence, a decrease of GDP, an increase of unemployment rate', deterioration of the 'quality of loan portfolios of banks and widening of the government budget deficit' (IMF, 1999/134: 3). It is expected that if an event has such a distinct influence on one economy, then some policies and reforms should be adjusted based on the new circumstances. However, no adjustment to the policies and reforms was mentioned. In the aftermath of the Kosovo crisis, the IMF's 2002 report highlights that the Macedonian economy was demonstrating 'favourable performance', but the ethnic conflict which occurred in 2001 in the northern part of Macedonia generated a setback in the country's economic development (IMF, 2002/56: 5). There is no mention in the IMF reports that, the two political events, in 1999 and 2001 are

closely related to the Yugoslav war and that the first event was an indication that these ethnic tensions might spill over in Macedonia. The ‘favourable performance’ in the 2002 report indicates that the environment in Macedonia was stable and improving before the occurrence of the conflict in 2001 and that after it, the environment became less ‘favourable’.

In light of this, I argue here that the Macedonian economy could not have been regarded as stable or ‘favourable’ especially not during the 1990s. The reports state that the ‘significant decline in output’, following a ‘large expansionary fiscal policy’ due to the ‘weak revenues’ and the deteriorating external current account generated a substantial ‘foreign exchange loss’ (IMF, 2002/56: 5). It is rather unclear how these issues can be caused solely by the Kosovo crisis and the ethnic conflict in 2001. I argue that these contradictions which tend to be reoccurring through the reports are used by the IMF to cover up the neo-liberal ideological role of the reforms which are imposed on Macedonia. The implementation of a universal set of measures does not take into consideration events that occur abruptly in an economy. Instead, these reforms are implemented with no adaptations and the Fund, down the road, uses such political developments to avoid responsibility, shift blame and to cover the unsuccessful outcome of the ‘one-size-fits-all’ approach.

The 2001 ethnic conflict was resolved with the signing of a peace framework agreement (August 2001) which provided a path towards political security and economic stability. This led to the development of a six-month stabilisation programme for which the authorities requested monitoring services to be provided by the IMF and preconditions were met for Macedonia to be given ‘financial assistance

from the donor community to cope with the effects of the security crisis' (IMF, 2002/56: 29). Even though these political tensions had not been resolved, the Fund's intentions of continuing with the implementation of the rapid policies and structural reforms were distinct. However, there was no mention of the socio-political and economic impact that this peace framework agreement would have on the Macedonian society and whether these structural changes following the peace agreement will in any way affect the design of the suggested policies by the IMF.

This section analysed in more detail the central position that regional events take place when analysing economic development in the Macedonian context. I indicated how the IMF neglected these events when suggesting the policy programme for the Macedonian transition from a planned to an open economy. I argue that the character of the Balkan countries, as well as the regional turbulences, were not given the proper attention in order for the IMF to be able to impose the universal policies. Moreover, I analysed the Fund's suggested unsuccessful policies implemented in Macedonia in order to highlight the inappropriateness of the policy programme. This relates to the discussion in the next section in which I present the third theme of the documentary analysis, the inappropriateness of the model leads to feedback loops. The following section discusses this aspect in more detail.

THEME III: IMPOSITION OF AN INAPPROPRIATE MODEL

Here I unfold another perspective of the IMF involvement in the process of economic liberalisation of the Macedonian economy. In light of the previous

arguments, this section elaborates on the inappropriateness of the policy model suggested by the IMF in Macedonia. It provides a more detailed analysis of the inappropriateness of particular programmes suggested by the IMF in Macedonia. Moreover, it also assists in a better understanding of the IMF's intention to not state the obvious complexities that exist in the Macedonian case and to not consider them in the policy-planning process. As discussed in Chapter 4 and at the beginning of this chapter, emergent properties play a significant role in complex systems. The emergent properties, as argued by Cilliers (2000), occur in a system unpredictably and influence the predicted outcome of the implemented policies.

Even though the policies implemented in Macedonia are reminiscent of the IMF assistance in the liberalisation of other economies³², the Fund argues that the particularity of the Macedonian economy is considered in order 'to minimise the associated risks, but these remain clearly considerable' (IMF, 1994/4: 17). The statement below indicates some of the specificities that have been regarded in the Macedonian case:

'unpredicted economic impact of the still unfolding regional crisis, particularly the implication for trade flows; the rudimentary institutions for monitoring and implementing economic policies; the uncertainty about the effect of policies due to the deep-seated structural problems in labor and financial markets; and the potential social pressures associated with a further

³² low inflation, stable exchange rates, tight monetary policy, and privatisation

reduction in the already dramatically reduced real incomes' (IMF, 1994/4: 17).

The statement argues that the complexity of the economic system is taken into account, even though the report, from which the above statement is taken from, does not indicate any adjustments in the policies. For example, there was no discussion whether a rapid liberalisation of the Macedonian market and privatisation is needed in such a turbulent time? Furthermore, it seems unclear how the 'recognition' of the existence of 'social pressures' in the Macedonian economy, has influenced the IMF's suggested policy programme. If the intention is to reduce social pressures why do the suggested policies and structural reforms (privatisation) involve reduction of wages and number of employees? Instead considering these issues, the IMF in agreement with the Macedonian authorities provides further financial assistance under certain conditions:

'...an early agreement with the Fund on a comprehensive program that can be supported by a stand-by or similar Fund agreement....Accordingly the staff considers the program fully deserving of support by the Fund under the STF.'
(IMF, 1994/4: 17)

This statement can be regarded as one of the possible answers to the previously mentioned questions. As the reforms did not prove to be successful at the level that was expected, the IMF suggests that a new loan is needed which will assist in resolving these issues. This relates to Ramcharan's (2003) argument in Chapter 2

through which he relates these newly approved loans to client-countries as 'rolling over the debt'. Thus, when the government's debt increases and imposes difficulties in repaying the loan, the benefit for the IMF relates to the country's need to lend by 'rolling over the debt' (Ramcharan, 2003). I argue that this is a rhetoric used by the IMF to demonstrate the understanding of Macedonia's complex circumstances and to indicate that these circumstances are considered in the policy programmes. However, at the same time, this discourse also implicitly imposes the planned neo-liberal ideology concealed under the mask of the promise of economic growth (provided that all the conditions are met). Once these promises are not fulfilled, a new loan is offered to the client-country to implement more reforms.

Here, I provide two examples of the inappropriate policies suggested by the IMF and implemented by the Macedonian authorities which proved to be unsuccessful. One of these policies is the privatisation law which was approved in 1993 and implemented four years later, allowed new owners to take control of previously state-owned companies and another is the rehabilitation of the banking sector (IMF, 1994/4: 14). A few years after the approval of the privatisation law in 1997 the IMF states that:

'The weak financial performance of the enterprise sector indicates that the restructuring and effective privatisation have not been completed' (IMF, 1997/189).

However, there is no mention that due to the instability in the region and the inappropriate privatisation method, not many foreign investors were interested in buying out the state-owned companies. This lack of competition in the Macedonian economy led to a buy-out of the majority of the state-owned enterprises by the managers themselves or the elite (oligarchs) of the Macedonian society. As there was no interest from foreign investors, the limited financial instruments in the financial sector and the lack of competition resulted in corruption, increased unemployment rates and poverty. Therefore, considering the limited foreign capital entering the Macedonian market, only elites were interested in the buyout of state-owned companies.

The process of privatisation was also critiqued because of the severe liquidation of the small enterprises due to the entrance of large foreign enterprises. The small number of monopoly companies which were bought out by foreign investors drastically increased the goods and services offered and pushed the small domestic companies out of the market. In turn, the Macedonian authorities were criticised by the Fund that:

‘[the] privatization entailed no more than a formal transfer of ownership rights to existing workers and worker-elected managers, suggesting that there has been no fundamental change in the financial conduct of these enterprises’ (IMF, 1995/175: 13).

This process reflects the cultural background of the Macedonian society which again relates to the ability of complex systems to learn and memorise from their history. I argue that the cultural mentality has changed throughout time according to the events that marked the Macedonian history. Therefore, coming from a planned economy, Macedonia had no entrepreneurship, nor did its population have the mentality to develop such entrepreneurial skills. Moreover, the turbulent events in the Macedonian history did not allow foreign capital to enter the country or diversified financial tools to be developed, which would have brought fundamental change to the enterprises. This, in turn, resulted in a deviated outcome of the universal policies designed by the IMF. Even though the reports explain that this ineffectiveness of the model was generated by the ‘enterprise sector’s response to the devaluation’ and ‘the fragile state of the banking sector’, the Fund concludes that:

‘the authorities have designed an appropriate package of macroeconomic policies and additional structural reforms to address the deviations of economic and policy performance from that envisaged under the program’ (IMF report, EBS, 97/189).

Therefore, according to the IMF, the solution for the previously ‘formal transfer’ of the privatisation policy programme, is further ‘macroeconomic policies and additional structural reforms’, without recognising the actual distortions of the policy programme.

Another example of the inappropriateness of the model is connected to the rehabilitation of the banking sector undertaken according to the suggested structural reforms by the IMF. This example also argues the emergent properties of complex systems highlighted previously. Following Connolly's (2011a) argument, I argue in this section that when a complex system is thrown into disequilibrium, emergent elements appear that limit the ability to predict the future of this system. Relating to this, and the fact that the future (or cause and effect) cannot be determined for complex systems due to their characteristics discussed before, emergent properties bring additional critique toward the implemented neo-liberal policies. The inappropriate policy model and its unsuccessful implementation place the Macedonian economic system in disequilibrium, the result of which the discussed emergent properties occur and affect the system at every level of its multi-layered structure. This, also, relates to the critique in Chapter 6 with regards to the limitations of the explanatory power of linear models. Due to this and the inappropriate rehabilitation reforms suggested by the IMF, the pyramid savings houses emerged.

The emergence of these savings houses led to corruption and their bankruptcy, which later on brought devastating social and economic costs to the Macedonian society. One example is 'TAT', a savings house located in Bitola, the second largest city in Macedonia, which held overall deposits by clients amounting to 112 million Deutsch mark (DM) (HRI, 4/97). The rehabilitation and the intention of the IMF to increase competitiveness in the banking sector resulted in the emergence of these building societies and did not bring many new established financial institutions into the Macedonian banking sector. On the contrary, in the 90's there were a couple of

examples of foreign banks entering the banking sector; this was a very small number of financial institutions. This was another indirect possibility why these savings houses emerged; to satisfy the demand of the population for credits, providing better interest rates.

The National Bank of Macedonia's requirement for a new deposit insurance fund to be created by all the banks and savings institutions brought to the surface a high amount of unreported deposits in 'TAT'. This raised suspicion about its operations. The National Bank requested all these savings houses to list officially the accounts that had to be insured, uncovering 25,000 actual accounts compared to 5,000 official accounts in the books of 'TAT' (IMF, 1997/37: 1). The operations of some savings houses in Macedonia including 'TAT' were suspended. At the beginning of 1997, 'TAT's' assets and liabilities were frozen and were placed in bankruptcy proceedings (IMF, 1997/37: 1). As pointed out in Chapter 3, this led to many social tensions among the population, especially since the major part of the clients of 'TAT' were from Bitola³³. As explained by the Macedonian authorities, the compensation to the depositors of 'TAT' and the other two failed Macedonian savings banks raised the total bill to 20 million DM (Deutschmarks)(0.3% of GDP) (IMF report, EBS 97/37: 1).

Therefore, the restructuring of the banking system, the unexpected occurrence of these pyramid savings houses and their bankruptcy due to illegal operations generated the need for supplementary budgetary funding. These additional strains on the budget were also associated with the low revenue at the beginning of 1997 and expenditures relating to the intensified police defense on the border with Albania (IMF, 1997/37: 3).

³³The second largest city, after the capital Skopje, located in the south-west part of the country close to the Greek border.

However, this additional financial assistance provided by the IMF came with additional conditions that needed to be met. The imposition of the model, the unsatisfactory results of the implemented reforms and the bankruptcy of the emergent pyramid savings houses illustrate the effects of the posed neo-liberal ideology on the Macedonian economy. These inappropriate policy-models led to emergent properties which generated the need for further financial assistance, even more intense conditionality, culminating in the higher vulnerability of the country to outside risks.

This section analysed in more detail the importance of emergent properties when analysing economic development in such complex systems. I indicated how the IMF by imposing inappropriate reforms and disregarding the possible occurrence of emergent elements which, has an even more devastating impact at different levels of the Macedonian stability and progress. The following section provides a concluding summary of all the aspects discussed here.

7.4 CONCLUDING SUMMARY

With the help of complexity theory presented in Chapter 4 and the background context literature presented in Chapter 3, this section brought forward the complex reality that exists in an economic system such as Macedonia in order to lay down the foundation for the main argument here. This chapter demonstrates the competing ontological positions. The documentary analysis has been used in this chapter to draw attention to the inability of the IMF to understand the context in depth and its focus on the implementation of the predetermined neo-liberal policies. This approach failed to

respond to the particular circumstances encountered in the Macedonian economy.

Three particular inadequacies emerged – failure to regard the history and multi-layered structure of the Macedonian system, blame-shifting instead of considering the interaction of the Macedonian economy with its environment and the inability to respond to emergent properties.

Through the annual staff reports published by the IMF for the period 1992-2014 which demonstrate the economic developments in Macedonia, I explore and study the IMF's perception of the specific context. Considering the critique of the IMF presented in Chapter 2, the economic, political and socio-cultural details about the Macedonian history in Chapter 3 and blending this together with the theoretical background and the findings from the IMF reports on Macedonia, this section sheds light on how the IMF has imposed its neo-liberal doctrine. By highlighting the elements of complexity theory which occur throughout this analysis, I expose the IMF's discourse through which the Macedonian economy has been a victim to the inappropriate and standardised policy programme.

The issues and questions mentioned in this chapter informed and impacted the choice of topics discussed in the interviews which are analysed in the interview analysis in the following, Chapter 8. Therefore, the uncertainties discussed regarding the history and multi-layered structure of the system, the interaction of the system's elements with the environment and the emergent properties, assist in presenting the IMF's perception of the Macedonian economy. This chapter focused on the critical analysis of the IMF's involvement in Macedonia by taking into consideration the IMF's perception of the context. However, it failed to provide an insight of 'the other

side of the coin' - the stance of the Macedonian authorities and critical thinkers towards the IMF's suggestions and policy programme employed. The following chapter sheds light on the Macedonian critical thinkers' perception of the IMF's involvement in the country's movement from a planned to a market economy.

CHAPTER 8

LOCAL PERCEPTIONS OF THE IMF

8.1 INTRODUCTION

In light of the analysis in Chapter 7, it is crucial to investigate how local practitioners and academics in Macedonia perceive the neo-liberal ideology and how they position themselves with respect to the IMF's activities in Macedonia. In the hope of providing a deeper understanding of how the participants' cultural, political and social backgrounds influence their perception of the IMF's imposition, I argue that reality, context and perceptions are complex, interrelated and cannot be considered in an isolated manner (Cilliers, 2000). I also aim to understand why some of the interviewees choose to support the IMF's influence in Macedonia and why some of them criticise it. Considering the critical realist perspective explained in Chapter 5, I uncover the mechanisms that operated beneath the observable reality (Sobh and Perry, 2006; Bhaskar, 1978). As highlighted in Chapter 5, the phenomena analysed from a critical realist perspective are considered context dependent (Sobh and Perry, 2006). Moreover, the interactions in the analysed phenomena are contingent on their environment. During the analysis, I found that bringing together the respondent's cultural and social background, emancipation and political

involvement in the Macedonian market liberalisation process was helpful to uncover the reasons behind the participant's degree of critical stand toward the IMF. As explained in the methodological design in Chapter 5, I categorise the participants regarding their involvement with the IMF. Below I provide a summary of the profiles of the people participating in this study and their level of involvement with the IMF during Macedonia's transition. The scope of this chapter is to provide a 'family of answers' that uncovers the 'contingent contexts and different reflective participants' (Pawson and Tilley, 1997: 152). In other words, the use of critical realism is not to understand the direct cause and effect from point A to point B, but to uncover the hidden issues and at the same time in line with complexity theory, to highlight that such links are complex and context dependent. Bhaskar (1978:20) refers to these complex links as 'causal tendencies', stating that 'complex cause and effect connections are embedded in the context in which the phenomena are analysed'. Instead of determining the 'actual' single events, through the realist epistemological aspect of my research, I constantly question why a specific response is obtained, and by considering the reality as complex I investigate the deeper and underlining mechanisms behind the 'real' and the 'empirical' (Gummesson, 2000; Neuman, 1994; Bhaskar, 1986). Therefore, the epistemological involvement of critical realism in my research assists me to explore the underlying structures and mechanisms which generate patterns of experiences (Sobh and Perry, 2006).

The table below, as mentioned before, outlines the participants involved in this study, their profiles and the intensity of their involvement with the IMF in the

economic policy programme implemented in Macedonia. Even though the profiles of the participants are categorised under a single function, I would like to underline that these actors are not perceived in such a simplistic way in my thesis. I view them as complex actors which have multi functions and I avoid limiting and simplifying their role only to a single function in this thesis. However, for the purposes of the discussions here, I highlight their official current function and reinstate the complexity arguments discussed in Chapter 4 regarding the complex multi-layered structure of the system and their elements.

Number of participants	Profile of participants	Involvement with the IMF
5 interviewees (Codes: IPM, WBB, GOA, IZC)	Institutions	1 very close involvement 2 relatively close involvement 1 very weak involvement
3 Interviewees (Codes: SN, KZ, EA, NAM)	Banking sector	1 very close involvement 3 very weak involvement
4 Interviewees (Codes: KMG, KMI, KMB, ACM)	Academics	3 very weak involvement 1 relatively close involvement
4 Interviewees (Codes: STP, FRL, NIP, TON)	Politics/Economists	2 very strong involvement 2 relatively strong involvement

Table 8.1: Background of participants

After the general interviewee analysis in section 8.2, section 8.3 presents a more detailed analysis by considering the three main themes described in Chapter 7 (the ignorance of the characteristics of the Macedonian context, the failure to consider the importance of events and the emergent properties of the employment of an inappropriate model). This is not something that as a researcher I influenced; however interestingly enough, they reoccur independently to my role in the research. Section 8.4 presents the concluding summary of this chapter.

8.2 OVERARCHING VIEWS OF IMF'S INVOLVEMENT

This section, as well as the detailed analysis in the following section, considers the ontological complexity and the epistemological critical realist approach described in Chapters 4 and 5. The main aim here is to explore the complex Macedonian reality, which is made up of actors and mechanisms. Thus, through the analysis of the inter-dependent operation of these actors, I present a deeper meaning of each of the respondents' ideas and provide an understanding of why the respondents perceive reality in a certain way.

A number of respondents were satisfied with the suggested monetary policies, specifically the ones which focused on the stabilisation of the exchange rates of the domestic currency. It was argued that:

‘although a low living standard was maintained, this continuous tight monetary policy of the Macedonian National Bank and the stable currency had positive effects on the economy in terms of foreign direct investments (FDI)’ (IZC; KMI; NIP).

Thus, the respondents regarded the suggested monetary policies (including the institutionalisation and the structural reforms) as ‘correct’ with a ‘positive impact’ on the country’s economic discipline but at the same time politically ‘too costly’ (KMI, KMG). Therefore, these monetary policies have not been extensively criticised through the participant interviews. The structural reforms have received more attention in the responses of the participants, which justifies the focus of the empirical findings on these structural reforms. The IMF as an institution is perceived as a ‘life saver’, by the less critical respondents, which ‘brings a solution to the already intense political and economic situation in Macedonia’ (NIP; IPF). Some of them also argue that the IMF did not only provide technical assistance to achieve financial sustainability, but its involvement had more of a ‘political component - to keep the country alive’ (STP). The IMF is perceived as ‘a credible institution’ or ‘a confidential international partner’ which ‘provides credibility for client-countries to easily obtain a credit agreement with other international banks’ (TON; IZC; KMB). As explained:

‘the international banks conduct their own research about the borrowing country, but they also read the article IV documents published by the IMF

about the specific country' 'if the borrowing country has agreements with the IMF, it is perceived as a "guarantee" that the country has a relatively conservative monetary and fiscal policy indicating that it will be able to repay the future loan received from the international banks' (NIP).

Considering the discussions around the IMF's role in Macedonia, most of the participants perceive the institution as a provider of technical support of 'best-selected practices' that are expected to work in Macedonia (NIP; IPF). However, the outcome of the IMF's suggested policies implemented in the Macedonian case was perceived differently by various respondents. Some of the responses characterise the international financial institutions (IFI) in general as 'rare and valuable institutions' which provide an insight of the 'practises that work best' (NIP). These effective policies from other transitional economies are regarded as 'best practices' and are suggested to be implemented in Macedonia (STP; TON; KMG; KMI). The less critical respondents argued that:

'Without the IMF, the Macedonian economy could not have made large-scale developments, especially not without the technical administrative support and the experts from other countries which have "crossed the same road"' (NIP) '.

Thus, the IMF is regarded as an institution with 'perfect collective and institutional knowledge' (NIP). In general, the respondents recognise the IMF's

assistance as a ‘one-size-fits-all’ approach as implemented in many other transition countries. However, some of them fail to consider this as a negative characteristic of the Fund, but as a way of how this institution operates (NIP; TON; NAM; IPF). Even though participants indicate that they were aware of the imposed neo-liberal ideology, the IMF was accepted as the ‘lesser evil’ at that period. Some of the respondents though provide a critique of the Fund’s neo-liberal ideology and hegemony that is imposed on developing countries through ‘the idea of experts’ and that ‘the IMF knows what is best for developing countries’ (KMG; STP; KMI; IZC; GOA; KMB).

As mentioned previously, the following section focuses on a detailed investigation of the reoccurring themes of the documentary analysis through the discussion with the respondents.

8.3 IGNORANCE OF THE MACEDONIAN CONTEXT

Relating to the first theme of Chapter 7, this section presents the extent to which locals perceive the context as important in the economic policy programme as well as the extent to which the IMF has actually considered the context specificities in the design of the economic reforms. The discussions with the participants highlight a few important points that are analysed in more detail here. The cultural background³⁴ (mentality) of the Macedonian people is the first issue. This has been touched upon in

³⁴ Here I understand cultural background as a construction of ethnic, religious or other socioeconomic factors and values that shape and influence the population’s upbringing.

Chapter 3 when referring to the political and economic history of the country. I argue that due to the developments in Macedonia's history and the ability of this complex context to memorise and learn, the authorities developed certain cultural dependence. The level of institutionalisation is the second issue, because of the regime change and also because of the country's independence from the federal nature of the Yugoslavian institutions. As illustrated in Chapter 3, due to the openness of the complex system and its history, the process of institutionalisation and state building should have taken a major part of Macedonia's development process. Finally, the structural reforms are criticised by highlighting the IMF's ignorance of the country's geostrategic position in relation to the region. The emphasis on these issues highlights the reason why the neo-liberal reforms were perceived as an imposed hegemonic doctrine on the Macedonian economy. I argue that these issues are considered by respondents as critical to presenting the complex character of the Macedonian context, which should have been considered by the IMF.

CULTURE OF DEPENDENCE

One of the key issues that were raised by respondents was the problem of the Macedonian leadership in the 1990s considering the survival of the country independent from Yugoslavia (STP, NIP). As highlighted by a respondent:

‘The independence referendum conducted in 1992 did not only consider whether the peace and stability of the Macedonian multicultural structure will

be maintained, but also whether the country will cope financially in the years to come' (STP).

As presented in Chapter 3, a number of the economists from ex-Yugoslavia argued that Macedonia (as part of Yugoslavia) received financial assistance from the most developed republics of Yugoslavia (STP). Thus, as these republics were no longer obliged to financially assist Macedonia, the financial stability of the country was in question (STP). As discussed in Chapter 4, systems are open and their nature is determined by the interaction of the systems' elements; thus, information flows through a system and it constantly changes and develops in an unexpected way (Cilliers, 2000). Therefore, I argue that Macedonia (as part of Yugoslavia) was a complex open system which was constantly learning through its history and changing through the interaction of the elements in its multi-layered structure. This is how the culture of dependence was developed throughout the years.

This culture of dependence that had been developed whilst the country was part of Yugoslavia is regarded by one participant as a reason for the 'low confidence of the Macedonian authorities to withstand the upcoming economic and political turbulences' (STP). This lack of confidence and unpreparedness of Macedonia's authorities to reject some of the inappropriate policies suggested by the IMF, demonstrates the crucial role that the culture of dependence plays when considering the neo-liberal imposition of the IMF; clarifying Cilliers' (2000) argument why systems should not be considered in isolation or independently of their context.

Therefore, by putting boundaries to an economy or taking it too literally, many other characteristics or factors are being ignored and this might work as a detriment to the economy (Cilliers, 2000).

Considering the difficulties explained in Chapter 3 and 7 coupled with this culture of dependence, the country is perceived as an ‘easy prey’³⁵ by international financial institutions (IFI). Moreover, the then ‘critical thinkers’ of the first Macedonian government (which represented the elite society of Macedonia) in a way prepared the terrain for IMF’s loans. By questioning the country’s ability to exist economically and politically by itself, raised doubts and indicated that the Macedonia needs outside experts to lead the way and assist in the country’s development. This elite group of ‘critical thinkers’ were the ones who later on were extensively involved in the negotiation processes with the IMF. According to one respondent who took part in the negotiations with the IMF in the 1990’s, the institution was required to ‘*provide an appropriate starting position in the negotiations with the foreign creditors*’ (TON). This statement, in turn, indicates the extent to which the neo-liberal ideology had influenced the Macedonian authorities. The elite society was considered by respondents as ‘*captivated by the neo-liberal doctrine that the IMF knows what is best for the Macedonian economy*’ (NIP; TON; IPF; EA; NAM). This elite group of ‘critical thinkers’ in the 1990s can be perceived as the extended hand of the neo-liberal doctrine, or a group of promoters of the IMF policies in Macedonia.

³⁵ As argued by Sen (2015) about different forms of imperialism of the developed over the developing world in his work on imperialism during the post-colonial era.

Saying this, I do not intend to imply that Macedonia should not have relied on outside financial assistance after its independence, rather that the IMF should have considered the difficulties of the country and responsibly lead the country through its transition. In other words, this culture of dependence which had been nurtured decades ago, in 1996 it opened the doors to the IMF's financial and technical assistance. I argue that these abilities of complex systems bring forward specific cultures of how things are done in specific economic systems and this is what makes countries unique. This is the reason why the intention of the IMF to treat different countries in the same way is contradictory and ineffective.

STATE BUILDING

As presented in Chapter 3 as well as mentioned in Chapter 7, most of the countries in the region quickly developed a network of institutions, but in Macedonia, the institutions that existed had a federal nature. As shown in Chapter 3, Macedonia not being an independent country before joining the Kingdom of Serbia (later known as Yugoslavia) after the Balkan wars (in 1912-1913), made this institutionalisation even more difficult compared to other Yugoslav republics which had experience with independent authorities and institutions. Thus, after the dissolution of Yugoslavia and the change of regime, these institutions needed to be re-established. Due to the uncontrolled money printing of the larger Republics' central banks, the Yugoslavian federal central bank requested all of the republics to send back the foreign currency reserves they held (KMI). Respondents argue that this left Macedonia 'without any

foreign reserves which were required for the country's process of state building after its independence' (KMI).

After the country's independence the intention to obtain its own currency brought forward a number of monetary issues which have been highlighted in Chapter 3. Most importantly, 'the country did not have its own mint, its own currency or its own national bank' (KMI). The country temporarily issued coupons printed in a local printing house in order to transition from leaving the 'dinar' (the Yugoslav currency) and adopting the 'denar' (the new Macedonian currency) (KMI). Additionally, due to the inexperience of the newly established National Bank, the country had no knowledge about the various mechanisms used in targeting inflation and managing public debt (Yugoslavia never had public debt only foreign debt, as it never issued bonds) (NIP).

Considering the problematic international recognition of the country due to the name dispute with Greece, as presented in Chapter 3, interviewees argued that *'the country was left on its own; it was unsure what part of the foreign debt of Yugoslavia belonged to Macedonia'* (TON; KMI; KMG). Aside from this, the country was *'dependent on oil, energy and commodities, while all of the distributive and supply channels were disrupted due to the political instabilities in Yugoslavia'* (KMI). Acknowledging all of these issues, most of the respondents argued and agreed that the difficulties after the country's independence (from an institutional aspect mainly), undermined the country's capacity for development (TON, KMI, KMG, IZC). This again relates to the importance of the context's history argued by Cilliers (2000). It is

stated that the history of the Macedonian context can be noticed through all the individual interactions that happen in a specific period; these latter on are distributed throughout the context and in this way it makes it unique and specific (Cilliers, 2000).

However, there is little respondent's reflection on the IMF's consideration of these difficulties in its programme. Instead, respondents justify IMF's actions by arguing that 'with the change of the regime, change in institutions needed to follow' (NIP, TON). Some of the less critical participants argue that 'this is where the IMF provided its assistance', by providing 'a first-hand experience of other countries in transition' (NIP, TON). They argued that:

'instead of Macedonia learning to manage its market economy through its own experience, the IMF provided technical assistance of world experience in order to avoid the mistakes of other countries in transition' (NIP, TON, STP).

Most of these responses reflect the acceptability of the authorities at that time toward the universal policies and standardised practices imposed by the IMF. This subjectivity in the respondents' perceptions made me question and investigate the underlying mechanisms that exist. Some of the interviewees avoid blaming the IMF for the most obvious misconceptions of the Macedonian economy, and I began to uncover the respondents' background in order to understand their perception of the Macedonian reality. According to the critical realist approach presented in Chapter 5, reality is multi-stratified and there are mechanisms which even though cannot be

observed they still influence reality. In light of these revelations, I structured my analysis in a way that it would uncover the two different positions of the participants—the less and more critical responses according to the respondents' involvement with the IMF. I contextualised these different opinions according to the respondents' background in order to detect the factors that have influenced the respondents to withhold their critical opinion regarding the IMF. The respondents who have considered the IMF's activities appropriate for the Macedonian context have been in some way involved in the negotiation process with the IMF – in other words, members of the elite level of society. Some of these respondents are also part of institutions which have closely collaborated with the IMF.

However, interestingly enough in their statements, the less critical respondents do not fail to highlight the universality of the Fund. They argue that during the negotiation process the success of the liberalisation process in Macedonia was compared by the IMF with other countries, such as Bulgaria, stating that:

'they (Bulgaria) did not have the 'baggage' that we (Macedonia) had, they did not build their own country, and we were building a new country. How can you explain this to an English -man? He says to you: "look at the Czech Republic, how well they are developing"'! Yes, but the Czech Republic had their own army, own state; we had war, conflicts, institutional struggle to gain access to international institutions' (NIP).

This statement provides a clear acknowledgment of the IMF's ignorance (as supported by the literature in Chapter 2) toward the specific characteristics of Macedonia's state building in the 90's. This relates to Cilliers (2000) work on complexity and his argument that similar looking systems have different histories and cannot be approached in the same way; the historical background of a system is intertwined with every individual interaction. Therefore, policies that worked in other contexts will not work in Macedonia. The lack of institutions, the cultural background and the geostrategic character of Macedonia as highlighted by respondents are crucial to the economic discourse. *'Even though referring to the same region, the same issues in Greece or in Albania are differently contextualised in Macedonia as a landlocked country'* (FRL). Therefore it is argued that 'historical determinants should be considered' because they in turn 'influence the macroeconomic policies of microsystems' (FRL). Thus it is stated that 'these aspects of the country's specificity generate political and economic problems *par excellence*', since 'the multicultural structure of the country affects the specific economy differently from the homogenous democracies' (FRL).

MACEDONIAN SPECIFICITY

Having said this, respondents reflect on the privatisation process (amongst other structural reforms as well) and characterise it as unfair and corrupted. These structural policies more specifically were focused on liberalising and stabilising the market in order to attract foreign capital and through this to stimulate the foreign trade

and economic processes in the country. One of the recommendations by the IMF was the rapid privatisation which largely affected the events which followed (IZC). The IMF's involvement in this privatisation process was to advise that 'the economy needs urgent restructuring because the market cannot continue in this structure'; thus, 20 loss-making companies were restructured immediately (STP; KMI). According to respondents, 'there was no discussion with the IMF about which model of privatisation was most appropriate for the Macedonian market' (STP). As explained in Chapter 3, the privatisation model was supported by the then two most powerful political parties in Macedonia (mostly represented by the elite society of Macedonia) and as argued by respondents the major political representation of the people was satisfied (KMG; STP; NIP; KMI). However, this approach can also be perceived as an opportunity for the Macedonian elites to choose the most profitable model of privatisation for themselves, since as explained in Chapter 3, the Macedonian elite was the major buyer of the state-owned enterprises.

Some of the closely involved respondents in the privatisation process refer to it as an appropriate reform, especially since the economy had not developed any market mechanism and private ownership (NIP; NAM; IPF). They justify their reasoning by arguing that 'the increased unemployment would have existed even without the process of privatisation since unemployment initially increased due to the cutbacks of the over employed state-owned companies and the shrinkage of the

market³⁶ (NIP; NAM; IPF). Even though a number of respondents acknowledge the mentioned complexities of the Macedonian case, these less critical respondents do not direct the blame toward the IMF. It is important to highlight that the involvement of these less critical participants in the negotiation process with the IMF, provides a clear understanding about their position towards the IMF. They avoid taking responsibility of their lack of criticality on the basis of patriotism, pointing out that their actions reflected only the wellbeing and prosperity of the country.

‘the decision-making process always took into consideration how these decisions will reflect the existence of the country; other countries did not have these problems, so we cannot isolate the effects the country’s independence from the effects of the implementation of the structural reforms’ (NIP),

According to the more critical respondents, the reason for the chosen model of privatisation might have been ‘to satisfy their (the involved political elite’s) main interest, the privatisation process to be completed in a way that they will reap the largest profits’ (KMG). It was argued that the government needed to find the ‘best way’ for the current managers to maintain their position and ownership of the enterprises as they will be the ones ‘financing the political campaigns of the parties’ (KMG). As highlighted:

³⁶ The Yugoslavian market was made up of 24 million population compared to the Macedonian market with population of 2 million

‘President Gligorov (the first President of independent Macedonia) intended the privatisation process to be orchestrated in such way that will keep the capital amongst Macedonian Christian owners, otherwise, the Muslim minority would have taken over the capital’ (STP).

It was argued that the decision about the model of privatisation was based on the intent for the state-owned companies to be privatised by its management team as they were most aware of the way the enterprises operated (TON; NIP; IPF).

The critical group of discussants not involved in the liberalisation process highlights that the IMF’s rapid shock therapy to quickly privatise the state-owned companies has been ineffective and led to more severe drawbacks for the Macedonian economy. This is where the ideological matrix prevails, as one of the respondents argues, it was expected that:

‘the companies (the loss makers) will be shut down and employees will be paid 5000DM (Deutsch marks). In the meantime, they (the laid off employees) will start their own business and they will redevelop their qualifications and skills’ (KMG).

The main aim of this process was to strengthen the private sector whilst making enterprises more productive and maintaining low unemployment rates. However, this

was impossible to be achieved in the Macedonian case. Respondents state that the idea of unemployed people from the privatised enterprises becoming entrepreneurs is considered a ‘story that might work in America, but in Macedonia, it does not’ (KMG). It is explained that the banking sector was not fully liberalised to provide entrepreneurs with co-financing credits nor were there institutions or legislative framework to support this change. Furthermore, the cultural background and the socialist regime in the past (100% certainty in employment in state-owned enterprises) had made difficult the creation of the Macedonian entrepreneurship. Thus, it is stated that:

‘it could not be expected that people in their 40s or even 50s would become entrepreneurs. The privatisation process of the state-owned enterprises could not immediately change the mentality of the people (KMG).

Therefore, due to the rigidity of the IMF suggested reforms, respondents underline that the majority of these people ‘ended up investing their money (5000dm) in a new car or renovating their house’ (KMG). The high unemployment rate remained for a long period and the people laid off ended up receiving unemployment benefits until retirement (KMI).

However, my intention is not to imply here that such policies should not have been implemented in the Macedonian economy, but to argue that these policies should have been adjusted according to the Macedonian context and cultural background. As

argued by Cilliers (2000), the IMF should have considered the initial conditions and the history of the context and the fact that market economy was only recently established in Macedonia. Moreover, decades of operating as a planned economy did not provide the right environment for developing a free market culture; thus, entrepreneurship and diversity of financial tools could not develop in such a short period of time (KMG).

The failure of these structural reforms led to devastating social disadvantages:

‘...there were not enough investments that would have absorbed the unemployed population. Entrepreneurship is a slow process and it is difficult to find new markets.... especially now that the economy is liberalised and finding new markets means to have global competitive advantage (NIP)’.

In line with this, the cultural background, the lack of institutionalisation, the limited and underdeveloped financial sector and the fear of the globalised world were the issues that forced the unemployed population away from entrepreneurship. Moreover, the low level of foreign capital and low diversity of financial instruments, generated by the instabilities of the Macedonian economy, the low degree of institutionalisation and the regional instability, discouraged even the small number of potential domestic entrepreneurs. These arguments again relate to the importance of understanding the history of the context by looking at the individual interactions that have taken place, since these interactions are distributed through the system’s multi-layered structure

and this is what makes the system unique (Cilliers, 2000). On the contrary to the complexity theory's arguments, the strong and rigid imposition of neo-liberal reforms in Macedonia had brought nothing but solutions to incorrectly diagnosed problems:

'The IMF says to Macedonia: 'I tell you what you need to do and you are going to do it. Just as is the case with the EU, you do not negotiate with the EU, EU says to you this is the European standard and there are only small adjustments. There is no need for negotiations; there is nothing to negotiate (STP).

The Macedonian economy suffered the consequences of the rigid privatisation process and the low competitiveness of the market (IZC). Most of the enterprises were bought out for a small amount of money and were subject to restructuring which destroyed and made the economy vulnerable (IZC; KMB). Respondents argue that the consequences of that unsuccessful transformation can be observed even today. Considering the transition from a planned to a market economy and the lack of trade relations due to regional turbulence, any privatisation model would have been unsuccessful (KMI). The country did not have the strength to undertake such rigid structural reforms which aimed at transforming the structure of the economy entirely in order to make the country an interesting and competitive trade partner in Europe. The main reason for this was the fact that the economy was suffering from high

transportation costs due to its geostrategic position (no exit to sea) and regional neighbouring conflicts (UN sanctions, Greek embargo).

Therefore, the whole privatisation process was regarded by the more critical respondents as ‘a painful inside process, ‘non-transparent’ and ‘tycoon criminal’ (IZC; KMB; KMG). Some of the respondents argued that if the privatisation process was undertaken as a case by case privatisation some of the enterprises needed to be liquidated as they generated losses, but others had the potential to operate profitably (KMG). Thus, the privatisation in Macedonia was implemented in order to respond to the degradation of the accumulated capital in the previous period (IZC; TON; NIP; STP). However, respondents highlight that it could have been completed in a more efficient and fair way without dishonoring the rights of the majority of the people which did not participate in the privatisation: *‘Considering the fact that all of the people were involved in building this capital, why were they restricted from contributing to the public capital’* (IZC).

Even though the IMF does not suggest the model of privatisation, the more critical respondents believe that it had an influence on the privatisation process in Macedonia (IZC; STP; KMG). They believe that the IMF could have influenced this process by involving foreign financial organisations which would have evaluated the capital in a transparent way and this would have led to appropriate and more transparent revitalisation or preservation of the enterprises (IZC; KMG). However, the Fund’s diagnostic abilities follow a unifying and superficial manner. The IMF neglected to recognise the cultural background and corruptive nature in Macedonia,

leading to a corrupt privatisation process, through which the ‘owning structure’ of the enterprises changed but essentially there was no change in the ‘management structure’ which obstructed the successful transformation of the private sector (IZC). A significant number of these companies did not live through the transformation process, and those which did drastically decreased their production scope leading to even higher unemployment rates (IZC).

Having addressed this specificity of the Macedonian context and having pinpointed to what extent respondents find the IMF responsible or not for the implementation of the economic reforms in Macedonia, the following section focuses on the regional events that occurred and affected the economy during its transition.

8.4 FAILURE TO NOTICE SIGNIFICANT EVENTS

The main argument here is that the Fund did not take into consideration the major events that have taken place in the region since the country’s independence. Relating to the second theme in the documentary analysis in Chapter 7, this section presents the local view of the extent to which the major events in the region are regarded as important in relation to the implemented market policies in Macedonia. Taking into consideration the context in Chapter 3, this section analyses the respondents’ reflection of the Yugoslav war (1993-1996), the Greek embargo (1995), the Kosovo crisis (1999) and the security crisis in Macedonia (2001) in relation to the IMF’s activities in the country.

YUGOSLAV WAR

As mentioned in the previous section, the unstable state of the economy, the inability of the National Bank to print its own money, the high inflation rates and the introduction of the new Macedonian currency the ‘denar’, generated high rates of unemployment and unstable prices (KMI; IZC). However, these are endogenous elements that influenced the Macedonian. There are also exogenous factors which are crucial. Many of the respondents have highlighted the importance of the Yugoslav war, but not all of them relate this to the IMF reforms. This could be because the reforms implemented in the early years of Macedonia’s independence focused on monetary stability, fiscal prudence and not so much on structural adjustments. ‘Considering the unstable circumstances in Macedonia, through the country’s negotiations with foreign creditors, the only foreign money Macedonia could get a hold of was through exports’ (KMI). The inability to access new financial markets and borrow money later on pushed the country to immediately seek the IMF’s assistance. Most of the participants argued that due to the disintegration and the war in Yugoslavia many investors were unwilling to invest in a country with such turbulence, severe regime and system changes in building a market economy from scratch (IZC). Therefore, respondents relate these turbulences to the history of the region and in turn, they argue that the Yugoslav war had an indirect affect on Macedonia’s economic progress.

More specifically, the interviewees regard the UN sanctions over Serbia (due to the Yugoslav war) as deterministic for the economic development of Macedonia. Participants state that in order to demonstrate will for collaboration ‘...*even though not yet a member of the UN, Macedonia sanctioned the trade with Serbia*’ which proved to be self-destructive considering the country’s unpreparedness and economic instability (KMI). Thus, the international community on several occasions pointed out that:

‘... Macedonia did not respect the embargo over Serbia. They (the international community) tolerated this because the whole situation in Macedonia and Serbia was so intense at that time that if this valve did not exist to release the pressure, the situation might have escalated throughout the whole Balkan Peninsula (KMI).’

The international organization disregarded the seriously intense situation in the Balkans during the period of the Yugoslav war and imposed an implicit condition on Macedonia to accept the UN sanctions against Serbia. Respondents argue that these sanctions proved to be especially damaging to the economy, considering the fact that Serbia was one of the main traditional markets for Macedonia, the imposition of the embargo would have been irrational under normal circumstances (KMI). These trade sanctions along with the Greek embargo (1995) indicated Macedonia’s dependence on

the main trade north-south corridor (FRL). As mentioned by one of the respondents, Greece tried to:

‘...throw Macedonia on its knees by blocking our main trade corridor, if Bulgaria was not open for us we would have been in a totally different situation, we would have been in true poverty.’ (FRL)

These turbulences generated a loss of 80% of Macedonia’s trade. As many of the respondents point out, most of the ex-Yugoslav countries found new trade partners - Macedonia was ‘trashed’ and ‘was left alone’ (KMB; KMI, FRL). Respondents, reflect on these events and criticise IMF’s imposition by arguing that, this interconnectivity between the ex-Yugoslavian republics and the other countries in the Balkan Peninsula is part of the Macedonian character. Thus, disregarding the country’s character and implementing reforms that focus on the Macedonian context taken in isolation from the rest of the region proves to be damaging. This in turn relates to Connolly’s (2002) perception of the world in a ‘constant flux’, making it difficult to fit such complex systems which are ‘intermeshed’, in a ‘structure of law-like explanation’.

GREEK EMBARGO IN MACEDONIA

The Greek embargo was another important event in the Macedonian history which was not considered through the IMF's suggested reforms. Macedonia was regarded in the 1990s *'as the only place to invest, especially since the ex-Yugoslav Republics were at war and Albania was in an economically catastrophic position'* (KMG). Nevertheless, Macedonia attracted small amount of investments due to the political instability in the region and the regime changes. Respondents blamed this on the inability of the country to determine its strategic position in terms of attracting foreign capital (FRL). Other interviewees, though, pointed out the inappropriateness of the structural reforms as a reason for the low interest for investment (KMG, IZC). Participants argued that considering the small size of the Macedonian economy and the recently introduced market economy, it was difficult to restructure the economy and *'to become an (Asian) tiger'* (KMB). The limited knowledge in leading a market economy pushed the country into accepting the suggestions by the IMF. Respondents stated that: *'we (The government of Macedonia) had to learn in order to know and then to be brave to implement something which would have a social effect on the people (TON).'*

However, the universality of the implemented policies was not the only issue, the way these policies were implemented was another matter:

‘the IMF’s role was definitely to push and initiate reforms, but the problem was with the institutional rigidity and the ideological focus. They (the IMF) did not have time to go case by case or be country-specific’ (KMG; TON).

These policies have been regarded by participants as ‘universal laws’, ‘standardised practices’, and ‘a ready-made programme’ (KMI; IZC; KMB). Some of the respondents which have had close collaboration with the IMF in the past, explained that the Fund used an ‘ideological matrix’ and restructured the economy ‘according to capitalism’ (TON). In other words: ‘the IMF’s approach towards the Macedonian economy (considering the designed policies and reforms) was the same as in other countries in the world’ (STP; KMI). Moreover, the:

‘IMF in that period was also moving through a ‘boom’ of the neo-liberalist ideology, they believed that the markets are almighty, everything happens in the market and rapid shock therapy is needed as well as radical reforms’ (KMG).

The rigidity as explained by respondents was maintained throughout the whole transition period in Macedonia (KMG, KMI). As one respondent states, the IMF’s perception was ‘the faster these economies were reformed, the better for them’, so ‘the same prescription was implemented in many economies (Poland, Russia,

Macedonia)' (KMG). Therefore, there was no time for the Greek embargo to be considered in the IMF suggested programme of reforms (TON, KMG).

As mentioned before, the Greek embargo had devastating and deterministic effects on the Macedonian economy especially in the aftermath. Reflecting on Cilliers' (2000) arguments, I argue that the Greek embargo should have been perceived as an unpredictable and novel characteristic that emerged from the system itself. As supported by complexity theory, events should not be ignored just because the cause of their occurrence cannot be explained (Cilliers, 2000). Respondents argue that the limitations that the Greek Embargo brought to the Macedonian economy (trade barriers with one of Macedonia's main exporter and importer, closure of shipment routes, insecurity for potential investors) were of deterministic (KMG, KMI). They suggest that IMF should have adjusted the standardised policies, especially the once focusing on productivity, exports and foreign capital and avoid imposing rigid conditions (KMG, KMI). According to respondents, (KMI; KMG; GOA; SN) the political uncertainty, the military conflicts in the neighbourhood, the small size of the market, the bad infrastructure, the costly and time-consuming exports are some of the issues that became more aggravated due to the Greek embargo and investors found unappealing.

As presented in Chapter 3, Greek investors especially in the middle of the 90s (after the Greek embargo) obtained some of the most strategic monopolies in Macedonia. However, respondents reflect that Greece had not perceived the Macedonian economy as attractive or enormously profitable (KMI; GOA; SN). The

aim of Greek investors was to receive first-hand information about the political developments in Macedonia, but also by entering the Macedonian market to be one step closer to the other ex-Yugoslav markets (GOA; KMB; TON; ACM).

Respondents perceive these investments as profitable and less risky for Greece, since the Greek investors in Macedonia operated with profits and they were still in a position to take advantage of Greece's main port in Salonika (through which 45% of the exported goods originated from Macedonia) (KMI; KMB).

One would relate these occurrences to the successfully implemented economic policies and opening up of the Macedonian market. I argue that this conclusion would be rather simplistic and biased. Some of the discussions with the participants demonstrate uncertainty regarding the extent to which the IMF suggested reforms had an effect on the level of FDI in Macedonia. The less critical respondents agree that the collaboration with the IMF demonstrates stability and attractiveness of the Macedonian economy to outside investors (TON, SN, ACM). However, the more critical respondents highlight that the initial investments (in the 90s-2000s) were strategic, short-term, profit oriented and from a similar origin (Greece, Turkey), rather than long-term business development oriented (KMG; KMB). Moreover, they argue that the increased greenfield capital inflow in the free economic zones with diversified origin (since 2006), is more related to the political agenda of the government (the benefits for foreign investors and the tax-free zones) rather than the IMF's successful liberalisation reforms (KMG; KMB; ACM). Therefore, this effect of the IMF policies

on the overall inflow of foreign capital in the Macedonian economy is rather ambiguous.

Coming back to complexity theory, the respondents' statements demonstrate the importance and centrality of events in complex systems (Cilliers, 2002). Connolly's (2002:55) work becomes even more relevant here and by referring to 'the fundamental mobility of things' he explains that in complex systems, elements are in constant flux, leading to self-development and a 'trajectory of irreversible change'. Therefore, when relating to the importance of the Greek embargo for the Macedonian economy, I agree that due to the openness and contingency of complex systems, events should be considered as the 'most reliable fixtures' (Coombs and Williams, 2013).

Connolly (2002) argues that events occur as a result of the interaction of 'force fields' between human and non-human agencies, which produce nonlinear dynamics in a universe. Relating this to the Greek embargo, I argue that the ignorance of the IMF toward this event destabilised even further the Macedonian economy, which in turn rejected foreign investors from investing in the Macedonian market. This I argue resulted in the massive buyout of the key inexpensive monopolistic enterprises, by Greek investors who made a strategic move in the Macedonian market. The cost of the wrongly evaluated economic ability of the country by the IMF and the Macedonian authorities, resulted in a unilateral dominance of Greek investors which shaped the trade relations of Macedonia in the long-term. As discussed in section 8.5, this vulnerability of the Macedonian economy and lack of diversification in its

economic partners is further tested 25 years later with the occurrence of the Greek crisis.

KOSOVO WAR AND ALBANIAN CONFLICT

In 1995 after the Greek embargo and the signing of the Interim Accords, bilateral relations between Greece and Macedonia were established and some Greek foreign investments entered the Macedonian market. However, this was again disrupted by other instabilities in the country and the region (IZC; IPM; GOA). The Kosovo war in 1999 and the ethnic conflict in 2001 in Macedonia were also mentioned by respondents, as a factor that influenced the economic stability in Macedonia. They argued that ‘the risk of investing in Macedonia always existed, especially since the country was undertaking dramatic changes’ but the political instabilities contributed even more to this investment risk (IZC, IPM).

According to some respondents in order to restructure the economy, there was intention ‘to decrease the number of public employees by 60.000 so the public sector becomes more productive’ (STP). The intention of the World Bank, as highlighted by one of the respondents, was to provide a financial grant so the Macedonian authorities can provide training for the laid off employees on how to find new jobs (STP). However, this was obstructed by the Kosovo crisis in 1999 and a big part of the Macedonian budget was re-directed to cover the costs of the increased defence expenditure and the immigrants from Kosovo which entered Macedonia (STP). This

again relates to the systems' ability to exchange information with the environment and outside factors influence the system with different intensity due to the system's multi-layered structure (Cilliers, 2000). Therefore, in the Macedonian case, as argued by respondents, the Kosovo crisis as an outside factor influenced not only the political stability within the country but also the economic and socio-cultural progress of the country (IZC; IPM; GOA). The negative effects of the Kosovo crisis on the Macedonian political stability, budget and economic progress had an immediate effect. However, the Kosovo crisis had also a spill-over effect on the Macedonian economy, created by the abrupt fluctuation of Muslim immigrants into the country. As presented in Chapter 3, this, later on, generated the Albanian-Muslim minority military conflict in 2001.

These events not only had an influence on the fiscal economy but also on the capital inflow. As pointed out by respondents, the oil refinery in Macedonia was bought out by Greek investors with the intention to enter the markets of Serbia and Kosovo after the Yugoslav war was resolved (KMG; GOA; SN). Investors rarely invest in Macedonia just because the Macedonian market (two million population) – the market is too small. They usually invest in order to come closer to other potential markets and trade partners (Serbia, Kosovo, Albania and Montenegro) (NIP; FRL). Realising that these ethnic turbulences needed more time to resolve, the Greek management team in the oil refinery had stopped production (KZ; GOA). Therefore, the observations of the respondents relate once more to the importance of the events in a complex economic system.

I argue that, due to these characteristics of the Macedonian economy, the IMF should have considered the regional turbulences when implementing the specific policy programme. The results of these political unrests had an effect on the budgetary constraints, the inability of the Macedonian authorities to decrease the government expenditure (IMF's condition for extending the loan) (KMI). The trade routes were also affected, especially the one towards the northern neighbours of Macedonia which was regarded as one of the most important since it provided links to the ex-Yugoslav markets (FRL). Viewing the respondents' discussion from a complexity perspective, I highlight that such unpredictable events are important in a complex system such as Macedonia, not only because they affect the outcome of certain policies, but more importantly, because such emergent events create positive and negative (short term and/or long terms) spill-over effects (Cilliers, 2000).

REGIONAL TURBULENCES

The main critiques highlighted by the interviewees towards the universality of the IMF policies focused on the ignorance that the IMF demonstrated in terms of the major events that occurred in the Macedonian history. In line with the literature discussed in Chapter 2, the contextual background presented in Chapter 3 and the documentary analysis in Chapter 7, respondents confirm that, the IMF by trying to implement this prescription of the well-known neo-liberalist doctrine (privatisation and lowering inflation rates, liberalisation of the markets and reconstruction of the

banking sector), made mistakes (KMG). This does not indicate that certain reforms were not needed, rather that the reforms suggested by the IMF should have recognised the specificity of the context and should have been implemented appropriately considering the pace and level of conditionality.

The reconstruction of the banking sector mentioned in Chapter 3 and analysed in Chapter 7 is an example indicating the relentless imposition of reforms made by the IMF in Macedonia. As mentioned in the documentary analysis in Chapter 7 and supported by some of the respondents, the IMF suggested the main monopolistic bank to be divided into smaller banks in order to achieve competitiveness and attract foreign capital to Macedonia (KMG; KMI). As explained that the core of the bank remained in Skopje (the capital city) and the other 5-6 small banks were created in cities around Macedonia (KMG). Thus, one of the interviewees argues that:

‘According to the IMF’s prescription, the competitiveness in the banking sector should have increased through the buyout of the small banks. However, this rehabilitation did not increase the competitiveness amongst the Macedonian banks nor they were powerful enough to financially contribute to a project which would increase the financial activity’ (KMG).

The political instabilities and economic stagnation in the region did not attract new investors to possibly buyout these smaller banks (KMI, KMG, KMB). Especially in the beginning of the 1990s as the respondents argue, the political turbulences led to a

disruption of the trade relations with many countries (IZC). Since the only developed country in the Balkan region was Greece, due to the embargo it was impossible to expect Greek capital to enter Macedonia. Furthermore, the absences of foreign banks or even competitiveness in the banking sector limited the availability of micro-credits which would have stimulated entrepreneurship (TON, NIP). In the long run, this resulted in the bankruptcy of the larger part of the small banks (with exception to one which remained viable) (KMG).

The more critical respondents here confirm the inappropriateness of banking sector rehabilitation policy. They argue that this is an example of how the IMF simply applies certain prescribed policies independently to the context in which these policies are being reinforced (KMI, KMG). Moreover, they agree with the argument that such inappropriate policies lead to emergent properties which are not expected by policy-makers and have severe effects on the country's stability. Specifically to this, respondents suggest that policy-makers should adjust the suggested policies according to the history and cultural background of the context (TON, KMG). Thus, as mentioned in Chapter 3, the universal approach to rehabilitate the banking sector, created small pyramid banks in Macedonia in 1997. Aside from the economic repercussions that this had on the Macedonian government it had also a severe social impact on the Macedonian people resulting in an increased suicide rate in the immediate period (TON).

Furthermore, I need to highlight that all of the respondents, independently of their involvement with the IMF, argue that the regional turbulences that took place in

the last two and a half decades have influenced on Macedonia's transition to a market economy. However, it is interesting to analyse the extent to which less and more critical respondents connect these regional turbulences to the economic policies design suggested by the IMF. The less critical respondents do not state that the IMF should have considered these regional turbulences when designing Macedonia's economic policy programme (NIP; STP; TON; IPF). Most of them reflect on these regional events, but from the perspective that the Macedonian authorities should have reacted to these events more strategically. The more critical respondents explicitly argue that these events should have been considered when implementing the economic policies and the IMF should have adjusted 'the universally applied' reforms to the Macedonian context (KMI; KMG; KMB; GOA). In contrast with the less critical respondents, they do not blame the Macedonian authorities for not dealing with the events in a more strategic way. They argue that these events severely obstructed the outcome of the policies implemented; thus, consideration of the regional instabilities would have assisted the successful implementation of the policy programme.

8.5 IMPOSITION OF INAPPROPRIATE MODEL

This section unfolds the inappropriateness of the structural adjustment programme as a whole. Similarly to the third theme discussed in Chapter 7 where I presented the perception of the IMF toward the rehabilitation and privatisation

policies, here I present the respondents' discussions with regards to these policies. This section tests these policies with regards to the occurrence of the Greek crisis. Therefore, since the rehabilitation policy was implemented in the banking sector and the privatisation in the private sector, this section presents the respondents' perceptions of the influence of the Greek crisis on the banking and the private sector policies.

Many of the complexity issues from the previous sections are reinstated here by relating them to the Greek crisis, especially since I found that respondents regard this event crucial for the Macedonian economic transition. The analysis of the interviews in the previous sections indicates the inappropriateness and ineffectiveness of the IMF policies and due to this brings forward the extended transition period and vulnerability of the economy to outside turbulences. Participants connect the ineffectiveness of the reforms to the effect of the Greek crisis on the Macedonian private and banking sector. Here, I test the effectiveness of these policies towards a more recent external event. The aim of this section is to explore in more detail the extent to which the economic policies model, imposed by the IMF, proves to be appropriate for the Macedonian case by testing Macedonia's vulnerability towards the Greek crisis.

EMERGENT PROPERTIES AND THE BANKING SECTOR

The Macedonian economic development and progress toward a market economy have been put to a test through the occurrence of the Greek crisis. In line

with complexity theory, I relate to the Greek crisis as an external event which impacts the Macedonian economy. Considering Cilliers' (2000) and Connolly's (2002) argument referring to the centrality of the events in complex systems and after the discussions with the participants in this study, I regard the Greek crisis as crucial to the Macedonian transition. I argue that the Greek crisis is an emergent property and as defined by complexity theorists, it is an outcome of the synergy between the components or a result of the intrinsic local interactions (Gallagher and Appenzeller, 1999; Andreoni and Miller, 1995). As Baas and Emmeche (1997) further explain emergent properties are not analytically tractable from the attributes of the internal elements of the system, thus, their occurrence is unpredictable.

When referring to the effects of the Greek crisis on the Macedonian economy, discussants initially relate to the banking sector since one of the largest banks and couple of smaller banks in Macedonia are in sole ownership or partial ownership of a Greek bank (GOA; SN; KZ). The fear of the Macedonian authorities, as some of the respondents highlight, was that the largest bank in Macedonia might use its profits to cover their subsidiaries in Greece. This could have caused panic and the people would have begun pulling their savings out of other Greek banks as well (GOA; IPF; NAM; SN). However, the respondents' underline that the crisis had no significant effect on the banking sector in Macedonia by explaining that:

‘Macedonia’s ‘size of the economy, maintained the banking sector closed and isolated. Thus it was not entwined in the EU financial or banking sector’ (TON, STP).

Moreover, they argue that this isolation ‘in a weird way was advantageous for the Macedonian economy and did not permit any spill-over effect of the crisis’ (TON; GOA; SN). This statement is of great importance for the argument of this thesis, especially since the IMF argued that the policies implemented in the Macedonian economy were beneficial to opening up the economy. After more than two decades of structural and liberalisation reforms, the Macedonian economy has not been able to achieve greater financial interconnectivity within the global financial markets. This leads to the question - what was the actual effect of the suggested IMF policies on the Macedonian economy?

This ‘isolation of the economy’, as stated by the respondents indicates that, after two decades of independence the country is still a transitional economy with low levels of economic, financial and institutional development. The due diligence undertaken by the National Bank of Macedonia indicates that ‘even though foreign capital is present, from a financial aspect, the banks in Macedonia largely operate with domestic credits (90%) (NAM; SN). This financial isolation, was perceived by the less critical respondents as a shield from any turbulences caused by the Greek or European debt crisis and at the same time, a reason for the extended transition and

insignificant economic growth (NAM; KMI). However, these respondents fail to relate the country's financial isolation to the IMF's policy programme.

A second important aspect highlighted by respondents was the fact that Greek subsidiary banks in Macedonia operate only with the domestic deposits without bringing any foreign capital into the country (KZ; SN; GOA; KMG). As explained, one of the largest Greek-owned banks in Macedonia had partial economic dependence with its main bank in Greece and operated mainly with its own customers' deposits (SN). I argue that, since the majority of the banking sector remained isolated and uncompetitive (with exception to few foreign banks), this indicates that rehabilitation policy of the banking sector suggested by the IMF has been unsuccessful.

The fact that investors in the Macedonian banking sector operate solely with the customers' deposits indicates the low confidence of foreign investors in the market. They protect their assets by investing the smallest possible capital in Macedonia, rather than expanding their investments in Macedonia and bringing new capital. Respondents argue that investors do not see the Macedonian market as a stable market in the long-term; they strategically make small investments to avoid any future losses and at the same time are present in the Macedonian market in order to take advantage of any investment opportunities in the neighbouring markets (GOA, SN, NIP, TON, KMI).

With regards to 'insignificant effect of the Greek crisis on the Macedonian banking sector', respondents argue that 'this indicates a conservative banking system, which operates predominantly with domestic deposits and with little exposure to

foreign capital' (NAM, ACM). I argue that this indicates that the economic reforms suggested by the IMF did not achieve the expected financial liberalisation of the Macedonian economy. The market only appears to be open and liberalised but in essence, it still remains relatively conservative. However, this does not mean that the effects of the Greek crisis on the Macedonian economy are also insignificant. I argue that they are deeper and of a long-term nature which drives the Macedonian economy to an even longer transition coupled with low capital flows and insignificant financial relations with the rest of the globalised world.

EMERGENT PROPERTIES AND THE PRIVATE SECTOR

As discussed in Chapter 3, the Greek investors have been present in the Macedonian private sector since the first years of the country's independence. Thus, it is crucial to analyse the Greek crisis influence as an emergent property on the Macedonian complex economic system (Cilliers, 2000). Some of the respondents perceive the influence of the Greek crisis in the private sector as marginal and not so significant. They argue that 'the influence of the Greek crisis was relatively small', but they also mention that 'many Macedonian companies operated with partial potential during the Greek crisis', which is rather contradictory (NAM; STP; SN). According to one of the respondents, the influence of the Greek crisis was perceived through the inactivity of the Salonika export route because of the often occurring strikes (railroads, customs, port etc.) (KMI). This affected both the goods Macedonia

imported from Greece, but also the goods that were exported from Macedonia to or through Greece to the EU (KMI). A number of respondents even point out that the Greek crisis was beneficial for the Macedonian economy due to the increased Greek demand for cheaper Macedonian products. Explaining that, an increased number of Greek citizens travelled to Macedonia to purchase products or services (dentists, tailors, hair dressers, beauty salons, etc.). They even relocated to take advantage of the cheaper housing properties in Macedonia (IZC; KMB; KZ).

According to the screenings undertaken by the National Bank of Macedonia during the Greek debt crisis, a number of possible implications are detected for the Macedonian economy (NAM). Considering the foreign capital, the general view is that there is 'stagnation in the Greek FDI, but also that many Greek companies are far more successful in Macedonia than in Greece' (KZ). Most of the respondents have indicated that the Greek crisis has been an important player in the Macedonian market (KZ; GOA; KMG; ACM). Greece initially invested in the 90s in existing capacities which are referred to as brownfield investments³⁷ and in the 2000, Greek investors began to invest mainly in small textile plants which investors built from scratch (regarded as greenfield investments³⁸) (KZ; GOA; KMG; ACM). However, due to the crisis, Greece has lost its position as one of the top investors and the number one trade partner of Macedonia (KMG; KMB; ACM). This, as explained by one of the

³⁷ When a company or government entity purchases or leases existing production facilities to launch a new production activity is called a brownfield investment.

³⁸ A form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up is named greenfield investment.

respondents, is related to the illiquidity of the Greek market and the fact that Greek investors instead of re-investing their profit, due to the low confidence in the Macedonian market, transferred their profits to off-shore banks or invested in other countries (GOA). These activities generated a decrease in the capacity of the Greek capital even since 2001; the crisis demonstrated that Greece has no more such investing power (KMI). As a result of the crisis, Greek investors retreat from investing outside Greece (GOA). This is why the Greek greenfield investments in the free economic zones in Macedonia are low (ACM; KZ).

I argue that contrary to complexity theorists, mainstream economists attempt to simplify and disregard the emergent properties by trying to predict and control the economy (Mason, 2001). In line with this, the Greek crisis resulted in pulling back some of the initially invested Greek capital, due to expectations for a low performance of the Macedonian market and further political instabilities in Macedonia and in Greece. Relating to this, I argue that the effects of the privatisation or structural policies implemented over the years did not bring reinstate those high levels of Greek capital from the mid-1990's when Greece was the top investor in Macedonia. On the contrary, the turbulences in the Macedonian market and the ones related to the Greek crisis (and the European crisis in general), brought low levels of FDI and insignificant trade relations which resulted in an economic stagnation.

Macedonia being a small and open economy, its GDP is dependent by 95% on what the country is trading (KMB). Thus, as a result to the recent Greek crisis, the exports toward Greece have been halved, which is not a direct result of the Greek

crisis only, but the effect of the European and Global crisis in general (NAM, GOA).

As a reaction to this and in order to diversify its trade partners and avoid the instabilities of the European market, the Macedonian economy re-adjusted and focused on trade with countries members of the CEFTA (Macedonia, Serbia, Bosnia and Herzegovina, Montenegro, Albania and Moldova).

This again relates to the arguments made in Chapter 4 with regard to the importance of history and the ability of complex systems to learn and memorise (Cilliers, 2000). Thus, due to the Greek crisis and stagnation of the Greek economy, Macedonia as a complex system, self-organises and changes trajectory by diversifying its trade links and returning back to its traditional trade partners before the 90s – the ex-Yugoslav republics (KMI). However, by trading with CEFTA³⁹, the majority of the trade links of Macedonia remained indirectly with the EU (ACM; KMI). Thus due to the economic turbulences in the EU market, Macedonia was unsuccessful in diversifying its trade relations. As argued by most of the respondents, even though the many structural reforms, Macedonia never developed its trade relations to the level to become a competitive export-oriented market (ACM, KMI, GOA). The problems that affected Macedonia's development related to the regional turbulences and the domestic structural obstacles, that were never appropriately and effectively tackled by the reforms implemented (NIP, TON, KMG, ACM, KMI, GOA). I argue that these

³⁹ CEFTA itself is trade dependent to the EU market

issues remained unresolved due to the standardised set of reforms implemented in the Macedonian economy and the universal approach of the IMF.

When presenting my research at a conference it was suggested by the audience that aside from the Greek crisis, the cold bilateral political relations between Greece and Macedonia might be considered as another emergent property that has an effect on the decreased presence of Greek capital in Macedonia. This was the reason I included this aspect in the discussions with the respondents. Most of the participants have underlined that through their contact with Greek investors/organisation in Macedonia, they have the impression that ‘business is business, and they are not interested in the political dispute’ (ACM; KMG; KMB; WBB). Other respondents argue that Greece could have ‘invested somewhat more’, but investors consider the fact that ‘Macedonia does not have significant domestic demand’ meaning that ‘investors would be taking advantage only of the low labour costs and nothing more’ (SN; GOA). There was one participant who explained that if the political tensions between Macedonia and Greece were inexistent, then the Greek debt crisis might have resulted in the relocation of Greek companies in Macedonia (IZC). ‘As it is the case in other EU countries, investors react to these competitive pressures in their home countries and reallocate their capital’ in order to avoid instabilities such as the Greek crisis (IZC). Especially, since Macedonia provides attractive benefits (low labour costs, tax-free zones, subsidies, investments in the microstructure) (IZC). I underline that this is the only participant who has related the political dispute between the two countries as a reason for the lower Greek capital in Macedonia without disregarding

the fact that the Greek debt crisis plays a major role in the stagnation of the economic relations between the two countries (IZC).

8.6 CONCLUDING SUMMARY

Contrastingly to the documentary analysis which presents the IMF's discourse as a perception of the Macedonian economy from outside; this section presents the inside (local) perceptions. As mentioned previously, this chapter brings forward the local view of the IMF's ignorance of the Macedonian context as highlighted in Chapter 2 and 7. In other words, by analysing the main themes in this chapter, I bring forward the main issues that participants regard important and the IMF neglected to consider in the suggested policy programme.

This chapter focused on three main themes: the specificity of the context, the importance of significant regional events and the inappropriateness of the policy programme implemented. In the first theme respondents highlight the culture of dependence, the inexistence of basic institutions and the specific geostrategic position of the country, as crucial specificities for the Macedonian context. Through these sub-themes, I bring forward the respondents' reflection on the universality of the suggested policies by highlighting the different level of participants' criticality. Through the assistance of the critical realist position explained in Chapter 5, I uncover the underlying mechanisms which relate to the respondents' need to portray reality in a specific way.

As presented in Chapter 7, I argued that the IMF disregarded the major events in the Balkans. This is the second theme discussed in this chapter. Here, I highlight the influence of the Yugoslav war, the Greek embargo, the Kosovo crisis and the security crisis of 2001 in Macedonia as the main events which have had a significant effect on the economic progress in the country. Moreover, respondents argue that the IMF, by implementing its ‘doctrine’, did not take into consideration the major events that had occurred in the recent history of Macedonia.

The third theme in this chapter explored in more detail the perception of the discussants with regard to the specific policies implemented in Macedonia. Respondents consider the most recent external event, the Greek crisis, as one of the most influential and deterministic events on the further development of the Macedonian economy. Thus, by uncovering the inappropriateness of some of the policies implemented in the Macedonian economy, I bring forward the respondents’ perceptions about the effectiveness of the rehabilitation of the banking sector and the privatisation process.

The following chapter discusses the findings in the empirical analysis and moves toward providing a clearer picture of this thesis’ contribution to the field of research. By connecting the analysis from the three previous empirical chapters I try to bring forward the main policy recommendations, future research agenda and re-instate the main arguments of this thesis.

CHAPTER 9

CONCLUSION

9.1 INTRODUCTION

Following the empirical chapters, I have now reached the final chapter of this thesis where I need to draw together the previously presented arguments and summarise the research undertaken. In this concluding chapter, I bring forward the main arguments and findings from the three empirical chapters discussed in this thesis and explain how these provide responses to the research questions that have guided this thesis-outlined in Chapter 1. As shown in the previous chapters, the assessment of the Macedonian economy can be related to at least three disciplines, namely, macroeconomics, development economics and political economy and I am structuring the first part of this conclusion regarding those three fields of scholarship.

From the development perspective, in Chapter 2 I outlined the IMF's primary role in the economic reform processes undertaken in transition economies. These processes were later analysed and tested in the case of the Macedonian economy in more detail by employing a tried and tested economic growth model in the quantitative analysis in Chapter 6. Moreover, in the documentary analysis Chapter 7 I also touched upon development economics, by presenting the market development

policies implemented in the Macedonian transitional economy and critically evaluated the rhetoric used with the help of complexity theory.

The macroeconomic perspective is also used in Chapter 2 through the exploratory debate around economic growth in transitional economies and the investigation of the factors that determine the achievement or otherwise of that goal. Chapter 3 also adopts a macroeconomic perspective when considering the context. In that chapter, I presented the historical economic background of Macedonia and related the political economy and socio-cultural aspects of the country. Chapter 6 combines development economics with macroeconomics through a quantitative analysis designed to investigate the influence of development policies on the macroeconomic determinants and, in turn, their impact on the economic growth of Macedonia.

Finally, the political economy perspective allowed me to introduce the concept of the hegemonic dominance of the IMF, the imposition of neo-liberal policies and their disregard of the complex economic system in Macedonia. Chapter 3 puts forward the historical and political background of the case study, and here I critique the universalising approach of the IMF and the standardised ‘best practices’ that were extensively employed during the transition of the Macedonian economy from a planned economy dominated by the state towards a market economy subject to multiple private forces. As discussed in Chapters 4 and 5, I coupled these insights from the literature with the theoretical tools offered by complexity theory and critical realism, allowing me to provide a fresh analysis of the dominant IMF economic policy programme employed in other transitional and developing countries.

In the remainder of this chapter, I present the main arguments of the three empirical chapters in section 9.2. Section 9.3 offers some tentative policy recommendations. Section 9.4 explains the contribution I have made to the literature exploring economic policy in transition economies and in particular concerning Macedonia. Finally, in section 9.5 I explore the limitations of the research and sketch some possible future research work.

9.2 RESEARCH SUMMARY AND DISCUSSION

The mainstream economic literature discussed in Chapter 2 argues that the IMF's rationale behind the implementation of the liberalisation reforms is to provide assistance to the client-country in its transition process to a market economy. The restructuring of the economy, privatising the public companies and resources, protecting them from the elite politicians and bureaucrats, bringing openness to the markets, and ensuring macroeconomic stability, are some of the issues addressed. However, this does not imply that the IMF's prescriptions are without flaws and drawbacks, especially in the case of transition economies where the neo-liberal hegemonic imposition of 'best practice' was evidently more persistent. Therefore, Chapter 2 presented the advantages and disadvantages of transition economies in which various market reforms suggested by the IMF have been implemented. By reflecting on the Uruguayan, Thai and Latvian economies, I highlighted the way in which IMF reforms have been implemented and the flaws of these reforms have brought crisis and distress to these economies.

Having considered the cases of different transition economies, Chapter 3 moves towards sketching the context under study. The socialist ideology adopted in Macedonia, as part of Yugoslavia since the 1950s, was an important factor in the expansion of the role of the public sector in the Macedonian economy. At the same time, the country had undergone drastic restructuring since its independence in 1992 which allegedly should have assisted in Macedonia's regime change towards a market economy. The aim of this restructuring was to improve the efficiency of the market economy and connect the Macedonian economy to the globalised market. According to the deeper literature review of internationally acclaimed academic researchers but also local scholar research in Chapter 3, the Macedonian economy has been heavily dependent on trade and FDI as the key drivers of its economic growth.

Some of the more evident examples of the reforms suggested by the IMF were, the macroeconomic stability achieved by implementing tight monetary policy in order to stabilise the inflation rates. Moreover, as part of the structural adjustment programme, the rehabilitation of the banking sector, the privatisation of the state-owned enterprises and the first steps toward institutionalisation were some of the most crucial reforms. However, by referring to the discussion in Chapter 2, these reforms have been extensively criticised by the international and local academic literature. As highlighted these policies prove the universal approach that the IMF has been implementing in many transitional and developing economies. Since the implementation of these policies, the Macedonian economy has yet not reached the GDP growth rate of 1989, the unemployment is still above 35% and the standard of

living has been decreasing since the country's independence in 1992. This is the point of departure through the exploratory work undertaken in this thesis.

This research hence used different analytical methods such as documentary, textual, and discourse analysis for the reports and quantitative regression analysis for the numerical secondary macroeconomic data. The value of such mixed-method research assists in clearly exploring the effect of the policy design on economic growth, especially since not all the factors that influence growth in an economy can be monetised and quantitatively analysed. As a result, this thesis reached findings that formed the answers to the research questions set in Chapter 1, where the main objectives of this research are highlighted.

In addressing my research questions I have made substantial use of Connolly's and Cilliers' work and in particular their applicability of complexity theory in the social sciences which brings a more modern perspective than the one in the mainstream literature. Complexity theory has provided me with an ontological understanding that has supported my analysis of the Macedonian economy as a complex economic system. This also instantiates an explicit critique of the universalising approach of the IMF and the standardised economic policies and practices employed in the process of economic transition. The critical realist paradigm and the work of Bhaskar and Lawson provide an epistemological and a methodological underpinning to the thesis, offering a way of uncovering and analysing the hidden mechanisms underneath the observable reality. These underpinnings are the essence of the documentary and interview analysis.

The quantitative data analysis and the robustness of the qualitative analysis generated many important conclusions regarding the influence of the IMF on the Macedonian economic transformation. The auto regressive lag model (ARDL) (Pesaran, et al., 2001) in Chapter 6 indicated the extent to which traditional mainstream economic variables influence the economic growth in Macedonia. This model determined the significance of the long and short run relationship between the economic determinants and GDP. As demonstrated by the analysis in Chapter 6, part of the variables did not show a significant influence on the GDP in the long or short run, except for the openness index, secondary schooling and the population variable. Moreover, the effect of the foreign capital in the form of FDI and the rates of inflation, have been regarded as insignificant to the Macedonian GDP. Based on the findings I argue that this model provided a rather simplistic view of the Macedonian economy. I reinstate that due to certain model limitations deriving from the data used and the context for which the model is implemented, the findings should not be considered as definite. The analysis represents a partial understanding of the effects of specific variables on Macedonian GDP, but it fails to consider other macroeconomic determinants which due to several reasons (application of an already predetermined model, unmeasurable variables in the specific economy or insufficient data points) have not been used here. Nevertheless, I argue that this model provides an understanding of how the chosen macroeconomic determinants influence GDP and that such quantitative analysis provides some understanding of the impact of

economic reforms on growth in an economy, but its explanatory power will always remain incomplete.

The critical reading of the regression literature highlighted in Chapter 6 explained that such models are insufficient in explaining causality in small, open economies like Macedonia. These arguments assisted me in presenting the exploratory powers of the quantitative analysis and relate this, to the effectiveness of the implemented IMF policies in Macedonia. The results yielded from this analysis appeared shallow and lacking in complexity. They left me questioning precisely why the economy had failed to grow in spite of following the IMF strictures. In order to gain a deeper understanding of the way these policies had been introduced and the reasons that have led to their ineffectiveness and failure, I attempt to understand the idea that motivated those introducing the policies. So I moved on from this quantitative analysis to a more fine-grained work exploring economic documents and then interviewing the people who were responsible for and affected by the implemented policy contained in them.

The documentary analysis highlights three distinct themes that assist in explaining the Macedonian economy according to the IMF reports. In the first theme I detect the significance of the openness and multi-layered structure of the system as well as the ability of the system to learn and memorise; and as supported by complexity theory, history of the context is significant. I found that even though the IMF's discourse appears to consider the specificity of the context, the actual reforms suggested reflect something entirely different. The main IMF critiques presented in

Chapter 2, shock therapy, ‘one-size-fits-all’ approach and over-conditionality, re-appear through this documentary analysis but are hidden under a rhetorical cover of economic progress and growth. I use the complexity elements to underline the significance of the context’s uniqueness and the extent to which the IMF’s ‘one-size-fits-all’ approach has been enforced in the Macedonian context. Similarly, the second theme relates to the most important political and economic turbulent events in Macedonian history highlighted in Chapter 3 and refers them to the complexity theory characteristics. Since complexity theory supports the idea that systems exchange information with the environment and the centrality of events is significant, I argue that the regional events such as the Greek embargo, the Yugoslav war and the Kosovo crisis are central to the design of the economic policy programme. Even though the IMF reflects on the regional turbulences and their impact on the market reform process, I demonstrate that the policies themselves have not been adjusted according to the effects from these turbulences. Again, the line of argument that the IMF follows is that the implementation of the suggested ‘best practices’ will bring the client-country growth and prosperity. My contention is that this line of argument is used to cover the implemented neo-liberal standardised set of reforms. By the same logic, the third theme discusses concrete examples of the inappropriate policy model deployed in Macedonia. The complexity theory highlights IMF’s implicit imposition of the neo-liberal doctrine through the suggested economic policies. According to complexity theory and by underlining the significance of emergent properties, I argue that the emergence, which occurs in the system unexpectedly, obstructs the ability of policy-

makers to predict the outcome of the implementation of certain policies. I highlight that due to this, the application of the standardised set of reforms is detrimental and highly ineffective. Therefore, I underline that the ineffectiveness of the reforms does not lay in the inability of the Macedonian authorities to implement the policies correctly, as portrayed by the IMF. Rather that these standardised policies suggested by the IMF have completely disregarded the Macedonian context and they follow the same prescription as in any other small transition economy.

Even though it answered some relevant research queries, this documentary analysis of the IMF's rhetoric posed other questions which relate more to the acceptance of the Macedonian authorities of such dominant imposition. It was necessary to explore whether this neo-liberal doctrine has been detected and the way it has been perceived by the Macedonian authorities and critical thinkers during the Macedonian transition period. These queries led me to the discussion in Chapter 8 which illuminates another perspective of the IMF's involvement in the Macedonian transition - not only the one perceived through the reports but a more practical one - the local perspective.

The discussions with the participants in Chapter 8 highlight a few important points that build on the previous discussion in Chapter 7. The cultural background of the Macedonian people and the level of institutionalisation are some of the underlined specificities through which respondents highlight the IMF's ignorance and in this way they uncover the actual neo-liberal hegemony of the institution. I find that even though the specific nature of the Macedonian economy was acknowledged, not all of

the interviewees held the IMF responsible for disregarding the context. On one hand, some of the respondents avoid any direct critique towards the IMF and consider the country's specificity as a reason for the unsuccessful policies suggested by the IMF. They argue that any client-country is familiar with the standardised practices followed by the IMF, but Macedonia's turbulent transition period and ineffective implementation of these policies made this transition even more challenging. On the other hand, some of the participants openly critiqued the Fund's universalising approach and argued that most of the policies implemented in this case might have worked in other more developed economies but not in Macedonia. These respondents condemn the 'one-size-fits-all' approach used by the IMF in the case of Macedonia by arguing that the country experienced crucial drawbacks in its transition due to the ignorance of its specificity.

Following the same logic, the neighbouring regional events are considered by all of the respondents as detrimental and having a severe negative impact on the country's transition and economic growth. However, the respondents' opinions were divided about the IMF's ability to recognise these externalities. Consequently, the less critical respondents argued that the presence of war in the region, liberalisation and restructuring had to happen in Macedonia independently to the events in the surrounding area. The more critical respondents highlighted that these developments should have been more seriously considered. They support their argument by explaining that any other transition economy going through such turbulent period could not have managed to achieve such a drastic restructuring. I argue that avoiding

the IMF suggested policy programme entirely was not an option for Macedonia, but considering certain adjustments to the universally prescribed policies, according to the context's disadvantages, it was essential.

The discussion in Chapter 8 culminates by indicating the inappropriateness and ineffectiveness of the IMF policies. Through the elaboration in this chapter, I affirm that due to these external turbulences, the transition period in Macedonia has been extended and the vulnerability of the economy intensified. The respondents in this study related this ineffectiveness of the reforms particularly to the magnitude of the Greek crisis and its impact on the Macedonian private banking sector. In line with their arguments, the rehabilitation policies and the rapid privatisation that took place in the banking sector in the 1990s failed to ensure a successful restructuring of the banking system or its achievement of a place in the global financial system. Because of this, participants argue that the foreign investors lack the trust in the market and provided limited financial services while operating with minimum foreign capital (mostly with domestic deposits) which maintained Macedonia financially isolated. This modest effect of the Greek crisis on the Macedonian banking sector indicates the ineffectiveness of the policies put in place as part of the market liberalisation programme suggested by the IMF in Macedonia. Similarly, the limited trade relations and the lack of diversity in the financial market impersonated a buffer for the Macedonian private sector from the Greek crisis. I argue that Macedonia's financial isolation in the 1990s relates to the fact that the IMF liberalisation policies were not as effective as in other client-countries. Compared to other more liberalised economies

in the region which had extensive trade and financial connections with Greece and because of that have been negatively affected by the Greek crisis, Macedonia maintained its unvaried economic relations. Another important aspect is that Greece was no longer the only access for Macedonia to the EU market. With the recent EU enlargement in 2007 and other neighbouring countries becoming EU members, Macedonia attempted to diversify slightly its trade partners. However, due to the interconnectedness of the EU market, the newly established Macedonian trade and economic partners proved to be valueless since they were also indirectly affected by the Greek crisis. Thus, Macedonia was pressured to rely to a large extent on the trade relations with its traditional markets, the Balkan countries, which again due to the interconnectedness of the market, have not been spared from the Greek and EU crisis. Therefore, the interview analysis in Chapter 8 argues that the effect of the Greek crisis is not a question to which one can answer with a simple yes and no. Due to the recent globalisation, markets have become more interconnected and complex. Thus, I argue that the effect of a regional crisis on a neighbouring economy cannot be as easily determined, because of the complex nature of systems. The multi-layered structure of complex systems, their ability to exchange information with the environment and the fact that such systems have memory (thus, learn and have the capacity to self-organise) the effect of an economic distress of this magnitude has a multiplied effect on one economy.

As discussed in the empirical chapters, the dominant neo-liberal policies and reforms proposed by the IMF have created several problems for the Macedonian

economy, such as inefficiency in the implementation of the market reforms, a universality of the reforms without considering the specificity of the Macedonian context or the regional turbulences that have affected the economy. These disadvantages led to the inability of the IMF to provide context-specific suggestions in transforming the socialist planned economy to a market economy and generated an inappropriate model that had devastating implications for the growth of the Macedonian economy.

9.2.1 ADDRESSING MY RESEARCH CONCERNS

The purpose of this thesis was to examine the impact of the economic policy programme implemented in transition economies. As a separate, but also a related theme, I analysed the rhetoric used by the IMF in order to impose their neo-liberal policy programme in transition economies. My thesis addresses a question of personal importance to me, concerning my country, namely: what has been the impact of the IMF on Macedonia, following the break-up of the former Yugoslavia, and the country's transition to a market economy? The main sub-questions I sought to answer were:

- 1) To what extent has the IMF liberalisation agenda been influential in determining Macedonia's path to economic development?
- 2) To what extent has the IMF considered the specificities of the context and the region in its policy design?

3) To what extent have the complex characteristics of the context been considered by the Macedonian experts as important for the Macedonian economic development?

By undertaking the quantitative analysis in Chapter 6, I answered to a certain extent the first research sub-question. By analysing some of the macroeconomic determinants which relate to the IMF policies implemented in transition economies, I argue that this analysis, to some extent, places emphasis on the influence of the liberalisation reforms on the Macedonian economic development. I argue that such an analysis can only explain one aspect of an economic system. By highlighting the positive and negative influences amongst the macroeconomic determinants, I underline that researchers can only understand the direct relationships between the variables and GDP. This analysis fails to consider the indirect relationships that exist in a complex economic system, especially since the unmeasurable factors that influence the economic growth of a country are difficult to be considered in a quantitative model. This argument pinpoints the empirical justification for undertaking a qualitative data collection and analysis.

The discussion in the documentary analysis chapter revolves around the IMF's discourse, which assists in answering the second research sub-question. By exploring the IMF's rhetoric used in the documents, I stress that the institution failed to design a case-specific economic policy programme for the Macedonian economy. Thus, I state that the three themes underlined in the documentary analysis chapter, are used as cover through which IMF successfully imposes its doctrine of neo-liberal policies. By doing so, I argue that the IMF collapses Macedonia into a broader geopolitical

context, ignores the politics and treats everything the same. In this way, it clashes with the Macedonian position bringing more delays in the transition process and making the economy even more vulnerable.

Finally, the discussion in Chapter 8 answers the final sub-question. While, the most critical respondents argue for the IMF's ignorant attitude to the Macedonian context through the policy design, a less critical group of participants attempt to justify the institution's involvement during the Macedonian transition. On one hand, the more critical respondents regard the IMF as the primary reason for the ineffective economic policy programme by arguing that the 'one-size-fits-all' approach ignored the contextual specificities and the regional turbulences in the Macedonian region. Participants add that with such over-conditional 'shock therapy' Macedonia was unable to implement successfully economic market reforms whilst seeking international recognition, trying to maintain political stability and attempting for the first time to establish market institutions. All of these issues, coupled with the regional turbulences such as the Greek embargo, Yugoslav war and Muslim minority conflicts; have made the Macedonian transition process even more challenging. Accordingly, respondents argue that such circumstances should have indicated the need for a more adjusted economic policy programme. On the other hand, the less critical respondents perceive the IMF as the provider of 'best practices and solutions'. The divided responses amongst participants can be explained by the extent to which they have been involved in the negotiation process with the IMF. Thus, the more

critical respondents have not collaborated with the IMF, whereas the less critical ones have been involved to some degree in this negotiation process.

This seemingly divided opinion amongst the experts in Macedonia has been regarded as detrimental to the Macedonian economic development, by the participants. Due to this division, the institution providing the solutions is not probed or challenged if these practices do not bring benefits to the economy. I argue that this is the way the IMF had built up its supposed authority and apparent professionalism through the years and emitted throughout the world. However, the majority of the respondents even though involved with the IMF, agree that the Macedonian circumstances (the particular context characteristics and the regional political instabilities) have been disadvantageous during the economic policy process and beyond. I argue that this finding is most crucial for this study.

I claim that it should be essential for policy-makers to investigate in-depth the context prior designing the policy programme and attaching to it further conditions. I question whether transition economies should be expected to undertake a massive and rapid change at the same time, at a political, institutional, economic and even cultural level, making them even more vulnerable in the long-term. Through this thesis, I argue for humility in the way client-countries are approached and ‘worked on’ by international financial bodies in the process of the much needed comprehensive restructuring of every segment of their societies. Furthermore, I underline that this non-existent challenge by the client-country’s authorities of the solutions imposed on their economies from outside has made the IMF’s involvement

and imposition in their domestic policies even easier. Thus, when the suggested policy programme does not generate the expected outcome, the IMF avoids taking responsibility for the recommended policy design and shifts the blame toward the ‘incapable’ authorities which have failed to see through the reform process effectively. I stress that the IMF adopts this method of imposing a neo-liberal doctrine under the cover of ‘best-practice’ and ‘economic policies’, in order to build its professionalism worldwide and to come across as a reliable financial partner to countries in need.

9.3 POLICY IMPLICATIONS AND RECOMMENDATIONS

Since I have based my conclusions on a worldview that accepts and seeks to embrace the complexity of economies and their multifarious actors, I am somewhat daunted by the prospect of making policy recommendations based on the understanding I have managed to acquire during a limited study. However, in answering my research questions, some of the limitations of the policies introduced during Macedonia's transition to a market economy have become very clear and it is important to attempt to translate these into suggestions for future policy in this and related contexts.

The complexity theory in this thesis is not used to provide a particular set of tools or techniques according to which researchers can analyse an economic system and then work on the appropriate policy design. I argue that this approach is contradictory since complexity theory argues that every system is original and

universal tools or techniques cannot be applied to various economies. However, I agree that certain general aspects of the complexity characteristics dealt with in this thesis can be used in different cases. Therefore, my recommendation is a theoretical lens, based on the complexity elements discussed in this thesis, through which various economies can be explored and understood in more detail. I argue that by analysing the economies through this complex theoretical perspective, the policy design can be more efficient and the implemented reforms more successful.

My recommendations fall into three main categories. The first category refers to the suggestions for a shift in the policies of the global financial institutions to challenge their universalising approach and require them to respond to the local situations into which they introduce their hugely influential reforms. The second category of recommendations reflects the shift in the nature of the relationship between these bodies and their 'clients' so that it is an equal and participatory and the experience and insights of the client country policy-makers are treated with respect. Finally, I argue for an adoption by the global financial bodies of a suitable degree of humility and respect for the fact that economies are complex and diverse and that one size, therefore, is unlikely to fit all situations.

The first category of recommendations that this research provides is directed to global financial institutions and policy-makers. I argue that the economic policies implemented should not simply be applied considering the universal best practices that have provided good results in other transitional economies. The foundational basis of these policies should be the context under study. Thus, the policies should

apply to the particular context and consider the complexities that this context carries within. By referring to complexity theory and relating this recommendation to the case study in this thesis, I underline that contextual characteristics such as the culture and mentality of the client-country and the initial conditions should be the main pillars upon which policy should be designed. Therefore, by considering the economic history of the client-country, policy-makers can determine the level of institutionalisation that exist in the context and which type of reforms have priority and urgency. I affirm that institutionalisation and legislation of new laws should be done promptly in order to build an institutional structure before the country undertakes economic transformation. ‘Quick fix’ and ‘rapid shock therapies’ do not provide the expected outcomes without the existence of stable institutional and legislative foundations. Both institutionalisation and legislation should be carefully thought through considering the drawbacks and advantages of the specific context and it should be put in place in time to provide support for the economic reform process. Again relating to the Macedonian case, I highlight that the state building process was a significant part of the reforming process, which when coupled with the rest of the structural adjustment policies implemented in the same period, produced massive drawback for the whole reform process. This was a result of the failed prioritisation of the reform process and the pulse with which these reforms were implemented. In light of this discussion, considering the initial conditions and the cultural background of the client-country is essential in the policy design process.

The result of these universally implemented policies in the Macedonian economy was an increased level of vulnerability. This model suggested by the IMF and employed by the Macedonian authorities had intensified the vulnerability of the country. Therefore, the IMF should learn from the failure of its policies in the other countries and to consider the context specificities in the transition economies. It is important to monitor and observe the policies implemented in order to achieve required transparency and avoid any doubt that could undermine or hinder the success of their implementation, which also might undermine trust in the system. Thus, a neo-liberal ‘quick fix’, ‘fly-in missions’, ‘rapid shock therapy’ and the ‘one-size-fits-all’ approach should be replaced by a thought through policy programme, which considers the complexity of each economy and approaches each client-country as a case study.

The second category of recommendations revolves around the relationship between financial institutions and government authorities recipients of such economic policies. It is understandable that in order to resolve issues of increased unemployment, for example, it is of particular significance to establish and stimulate competition in the private sector of the market. However, neo-liberal financial institutions should consider that the implemented policies are not a simple cause and effect, but since systems are complex, there are unobservable mechanisms that influence the outcome of a cause. Thus, it is crucial when the IMF is battling, for example, increased unemployment; it should also consider the historical and cultural background of the context and the region in order to suggest more appropriate policies to the government of the client-country. In line with this, I argue for a more equal and

participatory relationship, and that the insights of the client country's policy-makers are treated with respect. I argue that authorities should not be conditioned into accepting and implementing solutions that have been applied successfully in other states, such as early retirement, payment of compensation to laid-off workers or stimulating entrepreneurship. When implementing market reforms, authorities should consider both the advantages and disadvantages of each policy method implemented. I underline that the authorities in the client country should take into account the drawbacks of the reform process and they should address the adverse social effects of this process. The inefficient dealing with such issues results in social distress leading to more vulnerability on top of the economic and political upheaval the country is going through. Thus, the over-conditionality of the IMF should be relaxed in order to allow the client-countries to manoeuvre more efficiently within the suggested policy framework and to tackle the negative issues that occur through the policy implementation. In this way, I believe a shift in the nature of the relationship between the global financial institution and their 'clients' can be achieved.

Finally, it is crucial for global financial bodies to adopt, to a certain extent, humility and respect for the fact that economies are complex and diverse. I underline that a 'one-size-fits-all' approach is unlikely to fit all situations. Thoroughness and addressing every economy as a single case is of crucial importance, especially since every small open system is influenced in a different way by its trade partners, investors and regional instabilities. I argue that the IMF is doing several things, collapses Macedonia into a broader geopolitical context and by ignoring the politics

and treating everything the same it clashes with the Macedonian position bringing more delays in the transition process and making the economy even more vulnerable. Considering this I argue that a more complex model of policy implementation is needed in order to take into consideration these different drivers and factors.

Doctors are required to undertake an oath that before undertaking any invasive procedures they will first ensure to 'do no harm'. When the patient is a vulnerable economy, however, no such stricture is required, although the millions of people who form part of that economy are likely to suffer considerably if policies are inappropriate or poorly applied. In closing, I might suggest that those who intervene in the economies of others that are far from their own both culturally and geographically might have the humility and respect to question whether they might do harm and not take measures with powerful impacts until they can be sure they can answer this question in the negative.

9.4 RESEARCH SIGNIFICANCE AND CONTRIBUTION

In claiming significance for my research findings, I am faced with the challenge of not claiming either too much or too little. Since there is so little research explicitly focusing on the Macedonian economy, I can be sure that I have made an original contribution. The exploration of small open transitional economies in the South-East region of Europe and their reaction to the imposed neo-liberal policies is a significant contribution to knowledge. This analysis in the area of policy development can be considered to be the first of its kind since it explores the IMF's activities in

the Macedonian economic environment with regards to the market liberalisation process. There is limited empirical research on the impact of such policies on small open economies, especially considering the economies from the Balkans. It is here that I make a novel yet humble contribution, especially since Macedonia has not, as yet, been the subject of such research. I believe that a large part of the Balkan academic literature has not been studied enough. Furthermore, the contribution of this thesis is also in using the local literature and research published in Macedonian, Serbian, Croatian and Greek language and journals.

From a methodological aspect, this thesis brings a contribution to the literature since the limited number of studies which explore liberalisation policies in the Balkans use mostly quantitative methods. The thesis employed a mixed-methods approach: this so-called third approach is considered a way to cover the gap between quantitative and qualitative research methods. I regard this methodological approach as significant in the way it has been used in the research by providing theoretical and philosophical justification. The deconstruction of a growth model from an IFI provides the real justification for the mixed method implemented in this thesis. This methodology also assisted in better answering my research questions, especially in explaining the views of social actors in a turbulent and complex environment with various political, social and cultural influences. The combination of quantitative and qualitative analysis contributes to the area of research, especially since such analysis has not been extensively used in economic setting regarding South-East European

transition economies. Therefore, my research contributed by applying a mixed method approach which is considered rather novel in the analysis of the Macedonian context.

This research is a primary analysis of the actual economic environment and the liberalisation issues relating to the economic transformation of the Macedonia economy. As such, this study could be very useful for the purpose of conducting further comparative studies of the Macedonian economy with other economies in the region or other transition economies worldwide. More precisely, this kind of comparative studies can bring new insights into the way complex economies obstruct the success of certain reforms due to the disregard of the contextual specificities.

I can also claim to have made a contribution, albeit more limited, to the literature exploring the impact of the IMF policy programmes in transition economies. Here I position my contribution firmly within the wide critical literature that has argued the drawbacks of these policies implemented in transition countries. My aim has been to add another example to the literature that demonstrates the weakness and failings of transitional programmes, in this case, that of Macedonia. Although many studies have discussed the liberalisation process and its implications in many economies, very few studies have critically evaluated the appropriateness of the environment and the availability of necessary requirements for the successful liberalisation process of the market economy as thoroughly as I do here. This research can be considered a significant contribution to the existing knowledge in this area of research.

The body of work exploring the cause and effect of neo-liberal policies implemented in transition economies uses mostly mainstream economic theory. This is where the theoretical contribution of my thesis lies, as I chose to explore the opportunities and limitations offered by complexity theory coupled with the critical realist perspective. This theoretical and philosophical framework constitutes the original contribution of my research and assists in presenting a fresh perspective on the analysis of the Macedonian economy. I have argued that complexity theory introduces a modern perception of the economic reform processes of small economies, with explicit consideration of Macedonia as a complex economic system. I have demonstrated that non-linear interactions of agents cause random and unpredictable effects on the macroeconomic stability and growth of the country. Therefore, through this critical approach, my aim is to dig deeper and illuminate the complexity of the economic system and the complex elements that comprise such systems. I argue that the reason for the unsuccessful outcome of certain conventional economic policies is the failure to take account of the complexities of the system. Furthermore, from a critical realist position, I uncover the problem in the dominant relation of global versus local and critique the powerful hegemonic imposition of IFIs. Complexity theory assists this exposure of hegemonic practices through the identification and examination of the multifarious elements that exist in systems and their variety and levels of interconnectivity. Thus, not only focusing on economic growth but by considering the political, social and cultural aspect of growth complexity theory seeks to reflect the turbulent environment, the non-linear changes

of elements, as well as the degree of subjectivity of actors. Therefore, complexity theory enables us to understand how many elements co-exist, behave and correlate in a complex economic system. Having said this, this study does not provide a toolkit of solutions that can be used in different economies; rather an idea is to offer an approach to understanding the context in more detail in order to develop a more appropriate context-specific policy programme. Moreover, through the critical realist perspective, this study uncovers the deep and powerful structures around the ‘one-size-fits-all’ approach of this global project called the neo-liberal economic transition. I argue that by understanding the complex theoretical approach and applying it to an economic system, it can provide a more detailed picture of what solutions are needed in an economy, than the mainstream economic theory.

9.4.1 THE VALUE AND PLACE OF MY RESEARCH

There are two aspects that should be considered when discussing the predominantly qualitative mixed-methods research in social science in the context of policy-making, and these are the value and the place of research. I outline six reasons of value that are crucial for such research as argued by Jackson et al. (2005). First is to hear the often unheard voices; these include those aside from stakeholder, lobby groups, and government institutions. Too often important issues are dominated by various lobby groups of all sorts of shape and sizes. This type of research not only helps people to get beyond the opinions of stakeholders and lobbyists, but it contributes to build a more positive relationship between some of those stakeholders

since it is a different type of discussion which is more open to debate. Relating it to this research, I argue that even though negotiation is done between the IMF and the Macedonian authorities (such as the National Bank and Ministry of Finance), policies should be debated with other relevant experts in the field which will give a more objective view of the effects of the specific reforms implemented. The second reason is diversity which links to the first point about hearing often unheard voices, but it is critical not just to ensure unheard voices are heard, but to what extent these unheard voices reflect diversity and balance across society. These can be tailored to reflect particular perspectives, for example due to the importance of diversity in this research the discussants were selected from diverse backgrounds such as academics, economist experts/journalists, institutions, foreign investors. Relating to this issue, a consensus was not the objective of this research. The richness of the data are the plural and conditional responses of respondents about the issues at hand; it is then to policy-makers to interpret them and make decisions. The third reason of value is to challenge framings and assumptions of institutions such as the IMF, the National Bank of Macedonia or the Ministry of Finance because it is remarkable how ‘ordinary people’ (such as academics, practitioners, investors and other institutions) can ask questions that policy-makers have not thought of. It is very easy in a particular area of expertise not to be able to see out of your frame and that is why these reasons are important. The fourth cause of the value of this type of research is increasing the level of democratic legitimacy even with a relatively small numbers of people directly involved. It has been made clear through a set of other research achieved in the policy

area, a substantial proportion of people want the public to be involved or to be influential in some way in helping shape policy issues. Even if these individuals do not wish to do it themselves, they wish to know that others have the capability to do so. The fifth reason for value is giving decision-makers the confidence to proceed providing that they believe in the validity of the evidence presented. This is a significant outcome of the value of research, especially in contested policy areas where the public acceptability is of major concern. The final, sixth aspect of value is helping frame communication around the policy, and there is a narrow line between using the dialogue to legitimate an already decided policy in order to sell it, and a genuine desire to ensure an efficient engagement with the public. These are the key aspects of value for policy-making that can be obtained through such a predominantly qualitative mixed method research in social sciences.

The second point that is important is the place of predominantly qualitative research in the policy process. I argue that the place of such research is at all stages of the policy development process and implementation (Jackson et al., 2005). When talking about the choice of policy, design and development process, there many barriers from a practical, theoretical and ideological aspect. I think that the practical use of such a predominantly qualitative research requires political will, a commitment of policymakers and those who provide the evidence. All of these are difficult to obtain. Government authorities are inevitably ideologically driven, policy-makers, advisers and analysts are busy people, the timescales for decision-making a much

shorter than that required for the research process, and also expense can be seen as a challenge.

Qualitative policy dialogue complements other forms of evidence gathering. For example, while quantitative data collection and analysis shows us what kind of effect specific reforms have on GDP growth, it does not show how government authorities and the public think about these reforms. Moreover, it lacks to show what government authorities or public are willing to trade off, what else around the policy programme they want to know, or how they believe this policy programme is challenging the economy. I argue that the qualitative approaches get under the skin of the people's thinking, of experts as much of 'ordinary people', which is equally important. In spite of the central place the complex macroeconomic phenomenon of growth plays in economic theory and practice, theorists continue to struggle to provide a full explanation of its evolution and determinants. This is the main reason why a mixed-methods approach had been adopted in this study, to explore the extent to which economic reforms have been effective in the Macedonian economic system. Therefore, the primary contribution of this mixed method approach is to build a whole picture that offers a body of evidence which policy-makers can eventually use.

9.5 LIMITATIONS AND FUTURE RESEARCH AGENDA

Aside from the empirical and theoretical contributions and the answers to the research questions and objectives, this study like any other is not immune to certain

limitations and acknowledging these can help to shed light on the opportunities for possible future work.

The methodology commonly used within the discipline of economics comprises of the development and testing models with the use of quantitative regression analysis. Similarly, the time-series approach used in Chapter 6 has managed to generate robust and generalisable results. The aim of this study was to identify other complexity informed variables which could assist in building the model and moving forward in this area. I hoped at this stage to have a better understanding of the complex model, but the objective proved to be far too complex for this study. I intend to make this aspect of the work undertaken here the goal of my future research. While the regression analysis conducted may be mathematically valid, interpretation is usually problematic, especially since various real-world events may produce mathematically identical results. According to Lawson (1997), the scope of such methodology is questionable since it aims to understand complex phenomena by making a radical simplification and rigid and dubious assumptions.

The benefits of regression analysis regarding the general conclusions that can come out from large datasets, are achieved in the first empirical chapter. However, this approach also presents some difficulties when trying to explore and analyse the real world. Such analysis often does not relate to the outcome of the implemented policies in the real world. One of the major constraints is the availability of sufficiently rich data to be used in a robust and reliable way. For many transitional economies, some of the most crucial data are only measured annually and relate to a

limited timeframe after the 1990s or since the country's regime change to a market economy. First of all, the statistical office as in other transitional economies, in Macedonia as well had not advanced enough through the transition period. Secondly, the fact that the country has not undertaken a census of its population since 2001 is another serious drawback in determining the validity and reliability of the data used. Finally, considering the fact that the country has become independent from Yugoslavia since 1992 and that the federal statistical office had limited macroeconomic data on each of the republics separately, provided this study with a limited number of data points (annual data 1993-2014). Such issues make the task to learn about long-term growth by using time-series regression analysis, more difficult, especially in the case of transition economies. Due to these limitations, I have decided to implement a form of methodological pluralism.

The rest of the empirical works has exploited a qualitative method in order to provide a more detailed exploration of the local economy, using local publications, country specific reports and semi-structured interviews. For a research project focusing on policy-making it is especially important that as much as possible the documents and people for whom the policies are being recommended are included directly in the research. This is the case because a policy is unlikely to be successful if it is not wholly appropriate to the context. However, the qualitative data sets are also not immune to limitations. The way research is conducted, the number of interviewees, which people are included and which are excluded and bias in the analysis of the transcripts, are some of the examples of decisions with strong moral

implications. Through my research I have followed Preston's (1997) perception of research, he argues that the knowledge generation process depends on our ideals and the decisions we make through the research, it is important these to be ethically embedded.

The primary qualitative data collection has been undertaken before the ongoing political crisis in Macedonia, responses given are likely to be different to the answers that would have been given after the resolution of the current political crisis. In light of this event, I am strictly limiting my analysis and arguments during the period under investigation 1992 – 2013. However, certain limitations in a Ph.D. project open doors to possibilities for future work. After the recent political changes in Macedonia, it will be useful to conduct another similar study in the near future to explore and critically evaluate the effects of the liberalisation process implemented since the country's independence. This can be interesting especially since Macedonia, in the last decade, has been going through a political crisis, which culminated in 2014. The future study can look at the level of liberalisation that the Macedonian market has achieved in a comparative way to explore IMF's influence in Macedonia's policy-making during the period of the IMF-hands on policy (1993 - 2006) and IMF's monitoring task (2006 - 2014). I believe that by comparing the transformations before and during the political crisis in Macedonia, will provide a better understanding of the extent to which the IMF's involvement, or not, in the policy-making is detrimental to the Macedonian economy. This is an interesting aspect to investigate especially since it builds upon the argument presented in this study and it will provide another

perspective of a different type of the IMF's involvement in the Macedonian economy. This can also build on the analysis of the Western influence and hegemony in transition countries. The recently occurring political crisis in Macedonia, in some way, puts to a test the involvement of the western institutions in the political stability in Macedonia. This again can be investigated and compared to other similar transition economies in order to detect the similar or different approaches that western hegemony adopts.

In light of the previous discussion, I regard as important the investigation of the extent to which the IMF rhetoric has changed over the years. I argued in this thesis that the IMF discourse has remained the same since the country's independence, and I have supported this by providing other studies of critical authors arguing that the IMF's rhetoric has remained unchangeable. However, I would like to dwell on this topic in more detail, especially because the IMF is becoming more flexible after the recent Greek crisis. I believe that their admittance that the austerity measures introduced by the resolution of the Greek debt crisis will damage the Greek economy is a significant turning point in the IMF rhetoric as well as an indication of the institutions flexibility.

Regarding future work on Macedonia which will build on the foundation of research, that has already been conducted, but I could suggest a wider research programme exploring the adverse impacts of opening up too quickly of the Macedonian economy. This investigation can be linked to the work conducted here. Since I have focused on quantitative analysis of the macroeconomic data, I can take

the research a step further and apply complexity theory in the quantitative analysis of economic data which consider the openness of the economy. More correctly, I believe it would be a significant contribution to knowledge to explore the most appropriate way to incorporate complexity modelling for this case study considering the available limited data. I believe that investigating the system by using other measurable variables and considering non-linear; will provide another perspective to understanding the complexities that occur in Macedonia's market liberalisation. It is also clear that I would need to obtain significantly more years of the data points before collecting richer data sets and conducting such analysis.

Finally, I would like to complete the discussion of this thesis by underlining that this research attempted to assemble the segregated fragments of knowledge and use the findings in a positive way to explore the economic policy programme implemented in Macedonia. Policy-makers engaged in transition economies continue to be faced with a dynamic and unpredictable environment, but I hope that some of the innovative recommendations presented in this thesis may be of use to them.

APPENDIX:

Chapter 1: Reflexive Account

My research journey for the doctorate started in January 2013. As someone with a background in research method studies and undertaking such a long-term project, I found it helpful to reflect on my research journey as a Ph.D. student. Therefore, here I shed light on my personal history that led to my interest in this topic.

I completed my Masters studies at the University of Roehampton and found myself particularly attracted to the approaches of inquiry, drawing on the knowledge and experiences of professional peers and exploring different methodological perspectives. The work experiences led me to work within a context of Greek foreign policy. Living in Macedonia, a country going through a very long transition period made me reflect on the bilateral issues between Greece and Macedonia. Considering the fact that in that period the Greek debt crisis was becoming more and more relevant, I was puzzled what kind of effect it would have on the Macedonian economic progress, especially having in mind the close bilateral relations. This background led me to explore, discover and creatively engage with my research area.

At the beginning of the first year of my Ph.D. whilst discussing with my supervisors, I encountered that the influence of the Greek debt crisis on the Macedonian economy is not exactly a simple ‘cause and effect’. Rather, there are

other implicit factors that exacerbate Macedonia's growth and progress and have done so since the country's independence in 1992. Therefore, what I envisioned doing initially changed its focus. Instead of focusing primarily on the influence of the Greek crisis in Macedonia, I shifted my focus to the role of the economic policies suggested by the IMF during Macedonia's transition period. By doing so, I considered the Greek debt crisis as one of the externalities which are used to test Macedonia's economic soundness to cope with such turbulent events.

After consuming a lot of knowledge about the economics of transition through my second year of my Ph.D. studies and undertaking my fieldwork, I became even more interested. I realised that it is a highly complex issue which associates not only economic but political, social and institutional changes in one idea. Having lived in Macedonia, a country which has been in a transition for the last 25 years, I was even more intrigued and inspired by the ability to apply this complex phenomenon of transition economies in the reality of the Macedonian context. Academics have created a vast amount of scientific research in the area of transition economics. However in some cases, this large body of the literature failed to recognise the uniqueness and individuality of the transition process and often turned to the application of old standardised methods and practices without adjustment. This provoked even more my critical beliefs of the groundless, ideological and domineering powers that exist in the world, especially at present, when many of these transition economies, including Macedonia, aspire to join the European Union.

Therefore, the isolated knowledge accumulated through the first two years formulated well-formed arguments and discussion in the final year of my Ph.D. research. The ideas and research pathway solidified and were soon translated through the empirical chapters, with the hope to produce a robust, original piece of work, which is presented here.

Chapter 6: ARDL Model

VARSOC TABLES:

varsoc GDP

Selection-order criteria

Sample: 1997 - 2014

Number of obs = 18

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-218.744				2.4e+09	24.416	24.4228	24.4654
1	-186.117	65.254*	1	0.000	7.0e+07*	20.9018*	20.9155*	21.0008*
2	-185.962	.30972	1	0.578	7.7e+07	20.9958	21.0162	21.1441
3	-185.788	.34721	1	0.556	8.5e+07	21.0876	21.1149	21.2854
4	-185.765	.04732	1	0.828	9.5e+07	21.1961	21.2302	21.4434

Endogenous: GDP

Exogenous: _cons

varsoc OPEN

Selection-order criteria

Sample: 1997 - 2014

Number of obs = 18

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-62.6021				68.6578	7.0669	7.07372	7.11636
1	-47.5424	30.119	1	0.000	14.4076	5.50471	5.51835	5.60364
2	-47.4237	.23737	1	0.626	15.9251	5.60264	5.6231	5.75103
3	-44.4316	5.9843*	1	0.014	12.8192*	5.38128*	5.40857*	5.57914*
4	-43.8561	1.1509	1	0.283	13.5389	5.42845	5.46256	5.67578

Endogenous: OPEN

Exogenous: _cons

varsoc INF

Selection-order criteria

Sample: 1997 - 2014

Number of obs = 18

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-41.8412				6.83717*	4.76014*	4.76696*	4.8096*
1	-41.7739	.13465	1	0.714	7.58985	4.86377	4.87741	4.9627
2	-41.7538	.04017	1	0.841	8.48168	4.97265	4.99311	5.12104
3	-40.755	1.9976	1	0.158	8.52025	4.97278	5.00006	5.17064
4	-40.6154	.2793	1	0.597	9.44503	5.06838	5.10248	5.3157

Endogenous: INF

Exogenous: _cons

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varsoc SEC

Selection-order criteria

Sample: 1997 - 2014

Number of obs = 18

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-29.5174				1.73856	3.39082	3.39764	3.44029
1	-21.8702	15.294	1	0.000	.831346	2.65225	2.66589	2.75118
2	-20.485	2.7705	1	0.096	.798279	2.60944	2.6299	2.75784
3	-17.5193	5.9314*	1	0.015	.644483*	2.39103*	2.41831*	2.58889*
4	-17.3603	.31789	1	0.573	.712904	2.48448	2.51858	2.73181

Endogenous: SEC

Exogenous: _cons

varsoc POP

Selection-order criteria

Sample: 1997 - 2014

Number of obs = 18

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-208.833				7.8e+08	23.3148	23.3216	23.3643
1	-154.759	108.15	1	0.000	2.1e+06*	17.4177*	17.4313*	17.5166*
2	-154.309	.89985	1	0.343	2.3e+06	17.4788	17.4993	17.6272
3	-153.901	.81759	1	0.366	2.5e+06	17.5445	17.5718	17.7424
4	-151.814	4.1736*	1	0.041	2.2e+06	17.4238	17.4579	17.6711

Endogenous: POP

Exogenous: _cons

varsoc FDI

Selection-order criteria

Sample: 1997 - 2014

Number of obs = 18

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-44.1431				8.82988*	5.0159*	5.02272*	5.06537*
1	-43.9148	.4566	1	0.499	9.62817	5.10165	5.11529	5.20058
2	-43.6447	.54033	1	0.462	10.4647	5.18274	5.2032	5.33114
3	-43.1283	1.0328	1	0.309	11.091	5.23647	5.26376	5.43433
4	-41.9095	2.4376	1	0.118	10.9056	5.21216	5.24627	5.45949

Endogenous: FDI

Exogenous: _cons

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AUGMENTED DICKEY FULLER TEST:

Variable: GDP

Dickey-Fuller test for unit root Number of obs = 21

Test Statistic	Interpolated Dickey-Fuller		
	1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	-2.475	-4.380	-3.600

MacKinnon approximate p-value for Z(t) = 0.3408

D.GDP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
GDP						
L1.	-.2983254	.1205526	-2.47	0.024	-.5515969	-.0450538
_trend	2710.569	928.2331	2.92	0.009	760.4239	4660.715
_cons	63885.98	25488.18	2.51	0.022	10337.3	117434.7

Dickey-Fuller test for unit root Number of obs = 21

Test Statistic	Interpolated Dickey-Fuller		
	1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	4.071	-2.660	-1.950

D.GDP	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
GDP						
L1.	.0233604	.0057384	4.07	0.001	.0113903	.0353306

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Dickey-Fuller test for unit root Number of obs = 21

Test Statistic	Interpolated Dickey-Fuller			
	1% Critical Value	5% Critical Value	10% Critical Value	
Z (t)	1.122	-3.750	-3.000	-2.630

MacKinnon approximate p-value for Z (t) = 0.9954

D.GDP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
GDP						
L1.	.0415807	.0370616	1.12	0.276	-.0359902	.1191516
_cons	-5450.761	10948.37	-0.50	0.624	-28365.96	17464.44

Variable: OPEN

Augmented Dickey-Fuller test for unit root Number of obs = 18

Test Statistic	Interpolated Dickey-Fuller			
	1% Critical Value	5% Critical Value	10% Critical Value	
Z (t)	-1.976	-4.380	-3.600	-3.240

MacKinnon approximate p-value for Z (t) = 0.6142

D.OPEN	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
OPEN						
L1.	-.5613897	.2840449	-1.98	0.072	-1.18027	.057491
LD.	.2076686	.308312	0.67	0.513	-.4640855	.8794227
L2D.	-.2546825	.2526044	-1.01	0.333	-.8050602	.2956951
L3D.	.3311756	.2746324	1.21	0.251	-.2671969	.9295481
_trend	.7721581	.3707348	2.08	0.059	-.0356037	1.57992
_cons	1.969864	1.973728	1.00	0.338	-2.33052	6.270248

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Augmented Dickey-Fuller test for unit root Number of obs = 18

Test Statistic	Interpolated Dickey-Fuller					
	1% Critical Value	5% Critical Value	10% Critical Value			
Z (t)	1.186	-2.660	-1.950	-1.600		

D.OPEN	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
OPEN						
L1.	.065763	.0554616	1.19	0.255	-.0531903	.1847163
LD.	-.1345733	.2947508	-0.46	0.655	-.7667508	.4976043
L2D.	-.4989867	.2511015	-1.99	0.067	-1.037546	.0395725
L3D.	.2465152	.2977627	0.83	0.422	-.3921222	.8851526

Augmented Dickey-Fuller test for unit root Number of obs = 18

Test Statistic	Interpolated Dickey-Fuller					
	1% Critical Value	5% Critical Value	10% Critical Value			
Z (t)	-0.135	-3.750	-3.000	-2.630		

MacKinnon approximate p-value for Z(t) = 0.9458

D.OPEN	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
OPEN						
L1.	-.0168133	.124416	-0.14	0.895	-.2855977	.2519712
LD.	-.0719246	.3111526	-0.23	0.821	-.744129	.6002797
L2D.	-.4562086	.2615854	-1.74	0.105	-1.021329	.1089122
L3D.	.2842857	.306842	0.93	0.371	-.3786061	.9471775
_cons	1.642077	2.205614	0.74	0.470	-3.122862	6.407016

Augmented Dickey-Fuller test for unit root Number of obs = 17

Test Statistic	Interpolated Dickey-Fuller					
	1% Critical Value	5% Critical Value	10% Critical Value			
Z (t)	-1.314	-2.660	-1.950	-1.600		

D2.OPEN	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
OPEN						
LD.	-.7133507	.5429308	-1.31	0.212	-1.886281	.45958
LD2.	-.2383747	.5105509	-0.47	0.648	-1.341353	.8646035
L2D2.	-.5526831	.3661069	-1.51	0.155	-1.343609	.2382428
L3D2.	-.0988901	.3160659	-0.31	0.759	-.7817088	.5839287

Dickey-Fuller test for unit root Number of obs = 20

	Test Statistic	Interpolated Dickey-Fuller		
		1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-4.853	-4.380	-3.600	-3.240

MacKinnon approximate p-value for $Z(t) = 0.0004$

D2.OPEN	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
D.OPEN						
L1.	-1.162928	.2396476	-4.85	0.000	-1.668541	-.6573161
_trend	.0776625	.1353929	0.57	0.574	-.2079915	.3633166
_cons	.413586	1.624862	0.25	0.802	-3.014573	3.841745

Variable POP:

Augmented Dickey-Fuller test for unit root Number of obs = 20

	Test Statistic	Interpolated Dickey-Fuller		
		1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	-4.200	-4.380	-3.600	-3.240

MacKinnon approximate p-value for $Z(t) = 0.0045$

D.POP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
POP						
L1.	-.2235344	.0532231	-4.20	0.001	-.3363622	-.1107065
LD.	-.2223057	.1922686	-1.16	0.265	-.6298969	.1852854
_trend	.8552311	.2974851	2.87	0.011	.2245908	1.485871
_cons	449.9752	104.8583	4.29	0.001	227.6855	672.265

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Augmented Dickey-Fuller test for unit root Number of obs = 20

Test Statistic	Interpolated Dickey-Fuller			
	1% Critical Value	5% Critical Value	10% Critical Value	
Z (t)	-4.031	-3.750	-3.000	-2.630

MacKinnon approximate p-value for Z(t) = 0.0013

D.POP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
POP						
L1.	-.0777308	.0192835	-4.03	0.001	-.1184155	-.0370461
LD.	-.1612422	.2283003	-0.71	0.490	-.6429137	.3204293
_cons	164.4778	40.2178	4.09	0.001	79.62562	249.3299

Augmented Dickey-Fuller test for unit root Number of obs = 20

Test Statistic	Interpolated Dickey-Fuller			
	1% Critical Value	5% Critical Value	10% Critical Value	
Z (t)	1.808	-2.660	-1.950	-1.600

D.POP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
POP						
L1.	.0011112	.0006146	1.81	0.087	-.0001799	.0024024
LD.	.6104274	.1759233	3.47	0.003	.2408262	.9800285

Variable FDI:

Dickey-Fuller test for unit root Number of obs = 21

Test Statistic	Interpolated Dickey-Fuller			
	1% Critical Value	5% Critical Value	10% Critical Value	
Z (t)	-3.240	-4.380	-3.600	-3.240

MacKinnon approximate p-value for Z(t) = 0.0766

D.FDI	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
FDI						
L1.	-.7359041	.2270968	-3.24	0.005	-1.213017	-.2587915
_trend	.0950559	.1170081	0.81	0.427	-.150769	.3408808
_cons	1.971722	1.396086	1.41	0.175	-.9613448	4.90479

	Test Statistic	Interpolated Dickey-Fuller		
		1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	-3.209	-3.750	-3.000	-2.630

D.FDI	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
FDI L1.	-.6625182	.2064845	-3.21	0.005	-1.094695	-.2303411
_cons	2.734487	1.023907	2.67	0.015	.5914248	4.877549

		Interpolated Dickey-Fuller		
	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-1.575	-2.660	-1.950	-1.600

	Test Statistic	Interpolated Dickey-Fuller		
		1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	-5.653	-4.380	-3.600	-3.240

D2.FDI	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
D.FDI						
L1.	-1.30553	.230946	-5.65	0.000	-1.792784	-.8182767
_trend	-.0738193	.1430406	-0.52	0.612	-.3756087	.22797
_cons	.9916256	1.716249	0.58	0.571	-2.629343	4.612595

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Dickey-Fuller test for unit root Number of obs = 21

	Test Statistic	Interpolated Dickey-Fuller		
		1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	-39.586	-2.660	-1.950	-1.600

D.INF	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
INF L1.	-.6753773	.0170612	-39.59	0.000	-.7109663	-.6397883

Variable SEC:

Dickey-Fuller test for unit root Number of obs = 20

	Test Statistic	Interpolated Dickey-Fuller		
		1% Critical Value	5% Critical Value	10% Critical Value
Z (t)	-2.812	-2.660	-1.950	-1.600

D2.SEC	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
SEC LD.	-.5652174	.2009826	-2.81	0.011	-.9858787	-.1445561

Critical Values: McKinnon (1973)

Critical value levels	1%	5%	10%
Constant/trend	-4.38	-3.6	-3.24
Constant	-3.75	-3	-2.63
No constant or trend	-2.66	-1.95	-1.6

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ARDL MODEL:

ARDL regression

Model: ec

Sample: 1995 - 2014

Number of obs = 20

Log likelihood = 60.755314

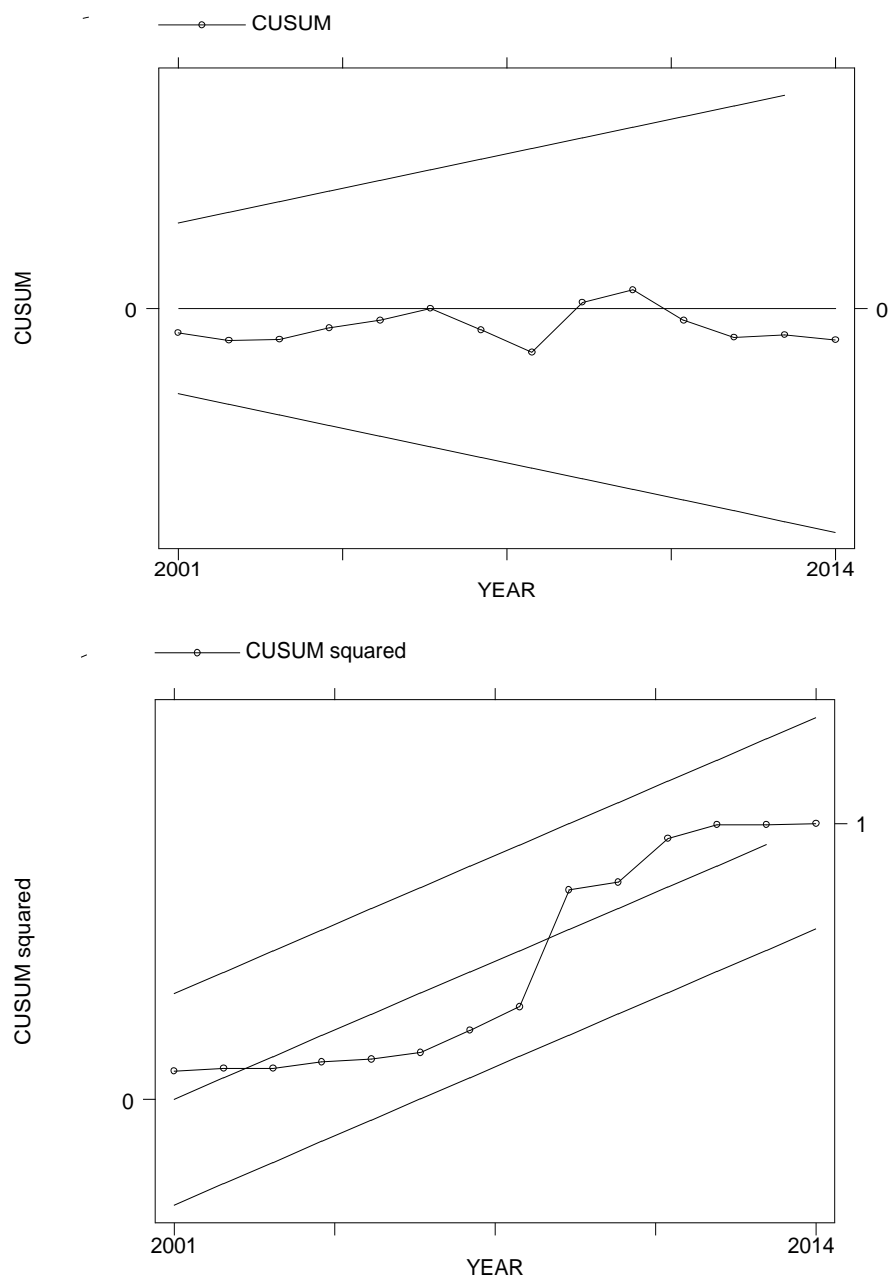
R-squared = .79014738

Adj R-squared = .50160002

Root MSE = .01834205

D.lnGDP		Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
ADJ	lnGDP						
	L1.	-.6806972	.2854316	-2.38	0.044	-1.338904	-.0224908
LR	OPEN						
	L1.	.0078299	.0031371	2.50	0.037	.0005959	.015064
	INF						
	L1.	-.0009889	.0038598	-0.26	0.804	-.0098896	.0079117
	POP						
	L1.	.0037694	.0011606	3.25	0.012	.001093	.0064457
	lnFDI						
	L1.	.014721	.0141216	1.04	0.328	-.0178434	.0472854
	SEC						
SR	L1.	-.0073055	.0082032	-0.89	0.399	-.0262221	.0116111
	OPEN						
	D1.	.0053799	.0021681	2.48	0.038	.0003802	.0103795
	INF						
	D1.	-.0006349	.002684	-0.24	0.819	-.0068241	.0055543
	POP						
	D1.	.0064094	.004286	1.50	0.173	-.0034742	.016293
	lnFDI						
	D1.	.003815	.0074703	0.51	0.623	-.0134114	.0210415
	SEC						
	D1.	.0134926	.0079151	1.70	0.127	-.0047596	.0317449
	_cons	3.639529	1.972448	1.85	0.102	-.9089444	8.188002

DIAGNOSTIC TESTS:




```
. test L1.lnGDP L1.lnPOP L1.OPEN L1.INF L1.secschoolPOP
```

```
( 1)  [ADJ]L.lnGDP = 0
( 2)  [LR]L.lnPOP = 0
( 3)  [LR]L.OPEN = 0
( 4)  [LR]L.INF = 0
( 5)  [LR]L.secschoolPOP = 0
```

```
      F( 5,      8) =    71.10
      Prob > F =    0.0000
```

```
. sktest lnGDP lnPOP lnFDI secschoolPOP OPEN INF
```

Skewness/Kurtosis tests for Normality						
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj	joint chi2(2)	Prob>chi2
lnGDP	22	0.5740	0.0032	7.75		0.0208
lnPOP	22	0.2114	0.5126	2.22		0.3301
lnFDI	21	0.0219	0.3323	5.81		0.0546
secschoolPOP	22	0.0193	0.1928	6.50		0.0389
OPEN	22	0.2366	0.0183	6.35		0.0417
INF	22	0.0000	0.0000	31.76		0.0000

```
. ovtest
```

```
Ramsey RESET test using powers of the fitted values of lnGDP
Ho: model has no omitted variables
           F(3, 12) =      2.52
           Prob > F =      0.1073
```

```
. hettest
```

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of lnGDP

           chi2(1)      =      0.13
           Prob > chi2   =      0.7138
```

```
. estat bgodfrey
```

```
Breusch-Godfrey LM test for autocorrelation
```

lags (p)	chi2	df	Prob > chi2
1	2.107	1	0.1466
H0: no serial correlation			

Cointegrating equations

Equation	Parms	chi2	P>chi2
_cel	5	13803.68	0.0000

Identification: beta is exactly identified

Johansen normalization restriction imposed

beta	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
_cel						
lnGDP	1	.	.	.	.	.
lnPOP	-13.30911	.5746139	-23.16	0.000	-14.43533	-12.18289
lnFDI	-.1639187	.0033542	-48.87	0.000	-.1704929	-.1573445
secschoolPOP	.0416007	.0019747	21.07	0.000	.0377304	.045471
OPEN	-.0064673	.0007784	-8.31	0.000	-.0079931	-.0049416
INF	.008048	.0009167	8.78	0.000	.0062512	.0098448
_cons	1.135331	.	.	.	.	.

Vector error-correction model

Sample: 1996 - 2014	No. of obs	=	19
	AIC	=	-5.282956
Log likelihood = 103.1881	HQIC	=	-4.837096
Det(Sigma_ml) = 7.72e-13	SBIC	=	-2.648468

Equation	Parms	RMSE	R-sq	chi2	P>chi2
D_lnGDP	8	.028844	0.6175	17.76003	0.0231
D_lnPOP	8	.000681	0.9744	418.7027	0.0000
D_lnFDI	8	.328522	0.9118	113.7092	0.0000
D_secschoolPOP	8	.875274	0.5318	12.49549	0.1304
D_OPEN	8	4.12457	0.2053	2.842243	0.9439
D_INF	8	3.79739	0.6017	16.61491	0.0344

Chapter 8: Ethical approval and participant consent forms

The research for this project was submitted for ethics consideration under the reference BUS 13/ 015 in the University of Roehampton Business School and was approved under the procedures of the University of Roehampton's Ethics Committee on 13.01.14.



ETHICS COMMITTEE

PARTICIPANT CONSENT FORM

Title of Research Project: The vulnerability of a small open economy in a situation of global fiscal crisis: The impact of the Greek debt crisis on the FDI (Foreign Direct Investment) in Macedonia.

Brief Description of Research Project: The aim of my thesis is to explore the impact of the Greek crisis on the relationship between two small countries—Greece and Macedonia—who are deeply intertwined and involved in the on-going financial crisis in Europe. Through this I hope to draw general lessons about the impact of financial liberalisation (FL) on small economies, and to critically evaluate the dominance of a regime of free capital movement, as proposed by international financial institutions (IFI) including the International Monetary Fund (IMF) and World Bank.

I will be conducting interviews which will not exceed an hour and a half. The interviews will be recorded and transcribed; a copy or/and a 2 page executive summary can be sent to you upon request within 3 months of the initial interview. I

would like to emphasise that this consent form will be used in the interviews for my research. I intend to maintain full anonymity of my participants and their answers. I would also like to point out that all the participants have the right to withdraw without giving a reason and if they wish to withdraw with data, this can be done within 2 weeks of the initial interview.

Investigator Contact Details:

Name: Viktorija Mano
Department: Business School
University address:
Erasmus House,
Roehampton Ln,
London
Postcode: SW15 5PU
Email:
manov@roehampton.ac.uk
Telephone: +44 (0)7719196805

Consent Statement:

I agree to take part in this research, and am aware that I am free to withdraw without giving a reason. I understand that the information I provide will be treated in confidence by the investigator and that my identity will be protected in the publication of any findings. In the event that I cannot sign this consent form I accept that oral acceptance will meet the criteria of a written signature provided that the terms are read and explained.

Name

Signature

Date

Please note: if you have a concern about any aspect of your participation or any other queries please raise this with the investigator. However, if you would like to contact an independent party please contact the Head of Department (or if the researcher is a student you can also contact the Director of Studies.)

Director of Studies Contact Details:

Name: Molly Scott Cato
University Address: see above
Email: Molly.ScottCato@roehampton.ac.uk
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Head of Department Contact Details:

Name: Elaine Harris
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КОМИСИЈА ЗА ЕТИКА

ФОРМУЛАР ЗА СОГЛАСНОСТ НА УЧЕСНИЦИ

Наслов на истражувачкиот проект: Ранливоста на мали отворени економии во ситуација на глобална фискална криза: Влијанието на Грчката должничка криза врз странските директни инвестиции во Македонија

Краток опис на истражувачкиот проект: Мојата тема го истражува влијанието на Грчката криза на односот помеѓу две мали држави- Грција и Македонија – кои се длабоко испреплетени и инволвирани во Европската финансиска криза која е сеуште во тек. Преку ова истражување се надевам да повлечам генерални закључоци околу влијанието на финансиската либерализација (ФЛ) на мали економии и критички да ја евакуирам доминацијата на режимот кој се базира на слободното движење на капиталот, кој е препорачан од страна на интернационалните финансиски институции (ИФИ), вклучувајќи го Меѓународниот Монетарен Фонд (ММФ) и Светска Банка.

Планирам да спроведувам интервјуа кои нема да надминат еден час и половина. Интервјуата ќе бидат снимени и транскрибирани; резиме од 2 страни може да Ви се испрати по барање во рок од 3 месеци од извршените интервјуа. Овај формулар за согласност ќе биде користен во интервјуата за моето истражување. Имам намера да се придржувам до целосната анонимност на моите учесници како и до нивните одговори преку целото истражување. Исто така би сакала да истакнам дека секој од учесниците има право да се повлечи од интервју без давање на причина а доколку сакаат да ги повлечат и нивните одговори, ова може да се направи во рок од 2 недели од првичното интервју.

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The vulnerabilities of a small open economy:
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Изјава за согласност:

Се согласувам да учествувам во ова истражување и дека сум информиран за опцијата за слободно повлекување без да давам на причина. Разбирам дека информациите што ќе ги дадам ќе бидат третираны како доверливи од страна на истражувачот и дека мојот идентитет ќе биде заштитен во публикацијата на наодите. Во случај да не можам да го потпишам овој формулар за согласност, се согласувам дека оралното прифаќање ќе ги исполни критериумите на писмен потпис под услов условите да се претходно прочитани и објаснети.

Име

Потпис

Датум

Ве молиме запомнете: ако имате загриженост во врска со било кој аспект од вашето учество или било други прашања, консултирајте се со истражувачот. Сепак, ако би сакале да се поврзете со трето лице, ве молиме контактирајте го раководителот на секторот (или ако истражувачот е студент, исто така може да се јавите на неговиот ментор на студии).

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ΕΠΙΤΡΟΠΗ ΔΕΟΝΤΟΛΟΓΙΑΣ

ΕΝΤΥΠΟ ΣΥΓΚΑΤΑΘΕΣΗΣ ΤΩΝ ΣΥΜΜΕΤΟΧΩΝ

Τίτλος της έρευνας : Η ευαλότητα μιας μικρής ανοικτής οικονομίας σε μια κατάσταση παγκόσμιας δημοσιονομικής κρίσης : Ο αντίκτυπος της ελληνικής χρεοστικής κρίσης στην άμεσων ξένων επενδύσεων (ΑΞΕ) στην ΠΓΔΜ.

Σύντομη Περιγραφή της έρευνας : Ο στόχος της διατριβής μου είναι να διερευνήσω τις επιπτώσεις της Ελληνικής κρίσης στη σχέση μεταξύ των δύο μικρών χωρών , Ελλάδα και ΠΓΔΜ - που είναι βαθιά αλληλένδετες και συνδεδεμένες με την εν εξέλιξει οικονομική κρίση στην Ευρώπη . Μέσα από αυτό ελπίζω να βγάλω γενικά συμπεράσματα σχετικά με τον αντίκτυπο της χρηματοπιστωτικής απελευθέρωσης στις μικρές οικονομίες , και να αξιολογήσω κριτικά την κυριαρχία ενός καθεστώτος ελεύθερης κυκλοφορίας κεφαλαίων το οποίο προτείνεται από τους διεθνείς χρηματοπιστωτικούς οργανισμούς, όπως το Διεθνές Νομισματικό Ταμείο (ΔΝΤ) και της Παγκόσμιας Τράπεζας.

Θα πρέπει να διεξαγώ συνεντεύξεις που δεν θα υπερβούν μια ώρα και μισή. Οι συνεντεύξεις θα καταγράφονται και θα μεταγραφούν. Αντίγραφο ή / και σύνοψη 2 σελίδων μπορεί να αποσταλεί σε εσάς κατόπιν αιτήματος εντός 3 μηνών από την αρχική συνέντευξη. Θα ήθελα να τονίσω ότι αυτό το έντυπο συγκατάθεσης θα χρησιμοποιηθεί στις συνεντεύξεις για την έρευνά μου. Έχω την πρόθεση να διατηρήσω την πλήρη ανωνυμία των συμμετεχόντων μου και των απαντήσεών τους. Θα ήθελα επίσης να επισημάνω ότι όλοι οι συμμετέχοντες έχουν το δικαίωμα να αποσυρθούν χωρίς να δώσουν λόγο και εάν επιθυμούν να αποσύρουν τα δεδομένα, αυτό μπορεί να γίνει μέσα σε 2 εβδομάδες από την αρχική συνέντευξη.

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Δήλωση συναίνεσης :

Συμφωνώ να λάβω μέρος σε αυτή την έρευνα και γνωρίζω ότι είμαι ελεύθερος να αποχωρήσω χωρίς να δώσω λόγο. Αντιλαμβάνομαι ότι οι πληροφορίες που θα λάβει ο ερευνητής θα αντιμετωπιστούν με πλήρη εμπιστοσύνη και ότι η ανωνυμία των προσωπικών μου στοιχείων θα προστατευθούν στη δημοσίευση της έρευνας αυτής. Σε περίπτωση που δεν μπορώ να υπογράψω το έντυπο συγκατάθεσης, δέχομαι ότι η προφορική αποδοχή μου θα πληρεί τα κριτήρια της γραπτής υπογραφής υπό την προϋπόθεση ότι οι όροι έχουν διαβαστεί και εξηγηθεί.

Όνομα

Υπογραφή

Ημερομηνία

Παρακαλούμε σημειώστε : αν έχετε ανησυχία σχετικά με οτιδήποτε σχετικό με την συμμετοχής σας ή οποιεσδήποτε άλλες απορίες παρακαλούμε να τις θέσετε με τον ερευνητή. Ωστόσο , αν θέλετε να επικοινωνήσετε με ανεξάρτητο φορέα παρακαλείστε να επικοινωνήσετε με τον προϊστάμενο του τμήματος (ή αν ο ερευνητής είναι ένας φοιτητής , μπορείτε να επικοινωνήσετε με το Διευθυντή Σπουδών).

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